BANCO NACIONAL DE OBRAS SERVICIOS PÚBLICOS, SOCIEDAD NACIONAL DE CRÉDITO, INSTITUCIÓN DE BANCA DE DESARROLLO

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

**BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO**

Financial statements and independent auditors' report for the years ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Banco Nacional de Obras y Servicios Públicos, Sociedad
Nacional de Crédito, Institución de Banca de Desarrollo

(Millions of Mexican pesos)

Opinion

We have audited the accompanying financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo (the "Bank" or the "Institution"), which include the balance sheet at December 31, 2019, and the statements of income, changes in stockholders' equity, and cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo at December 31, 2019 have been prepared, in all material respects, in conformity with the accounting criteria set forth by the National Banking and Securities Commission (the "CNBV" or "the Commission") in the General Provisions applicable to Credit Institutions (the "Circular" or "Provisions").

Basis for the opinion

We conducted our audit in accordance with International Auditing Standards ("IAS"). Our responsibilities in accordance with those standards are described hereinbelow in the "Auditor's responsibilities in connection with the audit of the financial statements" section of this report. We are independent of the Bank, in conformity with the Code of Professional Ethics of the Instituto Mexicano de Contadores Públicos, A.C., and we have met the other ethics responsibilities, in conformity with that code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit issues

Key audit issues are those matters which, according to our professional judgment, have been more significant in our audit of the financial statements of the year ended December 31, 2019. These issues have been addressed in the context of our audit of the overall financial statements, and in forming our opinion on them, and we do not express a separate opinion on these issues.

Allowance for loan losses

The allowance for loan losses involves significant judgments considered by Management for evaluating the creditworthiness of borrowers, by considering credit factors such as the probability of default, severity of the loss, and exposure to default, based on the portfolio rating models established by the CNBV. We consider this matter to be a key audit issue, due to the importance of the integrity and accuracy of the information that is used for their determination. The balance of the allowance for loan losses amounts to $10,990 at December 31, 2019.

Our audit procedures for addressing this key issue, among other things, included:

a) Tests on the design and operating efficiency of relevant controls for the managing and determining the allowance for loan losses including, among other things, those relative to information technology security and the integrity of the information generated by such systems.

b) Pursuant to selective tests, we review the calculation mechanism of the allowance for loan losses.

c) We reconciliation of the information generated by the systems involved in the calculation process of the allowance with the accounting records.

d) We evaluated the appropriate presentation and disclosure of the allowance for loan losses in the financial statements and their notes.

Derivative financial instruments

The determination of fair value of derivative financial instruments held for trading and designated as hedges involve a high degree of complexity, due to the significant judgments considered by Management in the valuation models, as well as inputs of information used from various market sources.

Our audit procedures for reviewing derivative financial instruments included:

a) Tests of the design and operating efficiency of the relevant controls for the managing and valuing financial instruments including, among other things, the uploading of data into the systems and integrity of the information issued and information technology security.

b) We compared key assumptions used as interest rate curves and exchange rate curves with data published by authorized institutions.

c) Pursuant to selective tests, we reviewed the valuation mechanism of derivative financial instruments carried out with Bank models.

d) We reconciled the position of instruments held at year end, in accordance with the information generated by the systems involved in the operating process of derivative financial instruments with the accounting records.

e) We confirmed the position held at year end with financial intermediaries and review of the counterparties of those instruments.

We reviewed the appropriate presentation and disclosure of derivative financial instruments for trading and designated as hedges in the financial statements and their notes.

In addition, we evaluated the appropriate disclosure by the Institution, in connection with interest earned in income, as specified in Note 26 to the financial statements.

Other matters

The financial statements of Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, applicable to the year ended December 31, 2018, were audited by other auditors, who issued an unqualified opinion on those financial statements on March 13, 2019.

Management's responsibilities and those responsible for the entity's governance in connection with the financial statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements, in conformity with the rules, criteria, general and particular accounting official letters applicable to credit institutions issued by the CNBV, the Lending Institutions Act, and the Banco de Mexico Law, and internal control deemed necessary by management to permit the preparation of financial statements free from material misstatements, due to fraud or error.

In the preparation of financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, if applicable, the matters relative to the going concern and using the going concern accounting base, unless management has the intent to liquidate the Bank or suspend operations, or there is no other more realistic alternative.

The persons responsible for governance of the entity are responsible for supervising the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the overall financial statements are free from material misstatement, whether due to fraud or error, and issue an audit report that contains our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit performed in conformity with IAS will always detect a material misstatement when it exists. Misstatements can be due to fraud or error and are considered material if it can be reasonably be foreseen that they individually or aggregately influence the economic decisions made by users based on the financial statements.

As part of an audit in conformity with IAS, we apply our professional judgment and maintain an attitude of professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatements of the financial statements, whether due to fraud or error. We designed and performed the audit procedures that deal with those risks and we obtained sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of a material misstatement due to error, since the fraud can implicate collusion, falsification, deliberate omissions, intentional misstatements or overriding internal control.

- We obtained knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances and not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- We evaluated the appropriateness of the accounting policies applied and the reasonableness of accounting estimates and corresponding information disclosed by management.

- We conclude on the appropriate use by management of the going concern accounting basis, and with the audit evidence obtained, we conclude as to whether or not there is a material misstatement related to the events or conditions that can raise significant doubts about the ability of the Bank to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our audit report to the corresponding information disclosed in the financial statements, or we express a modified opinion if those disclosures are not appropriate. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions can be grounds for the Bank to not have ability to continue as a going concern.

- We evaluate the overall presentation, structure, and content of the financial statements, including the disclosed information and if the financial statements represent the transactions and underlying events in a manner that they achieve a reasonable presentation.

- We hereby advise those responsible for the governance of the entity, among other matters, of the scope and time at which the audit was performed and the significant findings of the audit, as well as any significant internal control deficiency that we identified in the course of the audit.

- We also provide those in charge of the entity's governance with a statement that we have met the relevant ethical requirements in connection with independence, and communicated all relationships and other matters to them that can be reasonably expected to influence our independence and, if applicable, the corresponding guarantees.

- Among the issues that have been the subject of communication with those responsible for the entity's governance, we determine those that have been most significant in the audit of the financial statements of the current period and which are, therefore, the key audit issues. We describe those issues in our audit report unless legal or regulatory provisions prohibit public disclosure of the matter or, in extremely rare circumstances, we determine that an issue should not be reported in our report because it can reasonably be expected that the adverse consequences thereof would exceed the benefits of public interest.

CASTILLO MIRANDA Y COMPAÑIA, S. C.

C.P.A. Carlos Enrique Chárraga Sánchez

Mexico City,
March 12, 2020

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Balance sheets
At December 31, 2019 and 2018
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

Assets	Note	2019	2018
Cash and cash equivalents	6	$ 19,870	$ 13,747
Investments in securities	7		
Trading securities		361,885	336,140
Available-for-sale securities		14,378	11,437
Held-to-maturity securities		13,983	18,064
		390,246	365,641
Debtors on repurchase/ resale agreements (debit balance)	8	3,750	210
Derivatives	9		
Trading purposes		14,792	12,962
Designated as hedges		7,945	12,033
		22,737	24,995
Valuation adjustments on hedges of financial assets	10	(486)	(555)
Current loan portfolio			
Commercial credits			
Business or commercial activity		135,617	123,257
Financial entities		28,111	27,966
Governmental entities		281,045	279,250
Consumer lending		1	-
Housing lending			
Medium class and residential		106	80
Loans granted as an Agent of the Federal Government		498	581
Total current loan portfolio		445,378	431,134
Past-due loan portfolio			
Commercial credits			
Business or commercial activity		2,416	2,301
Consumer lending		9	9
Housing lending			
Medium class and residential		48	41
Total past-due loan portfolio		2,473	2,351
Loan portfolio	11	447,851	433,485
Allowance for loan losses	12	10,990	10,732
Total loan portfolio, net		436,861	422,753
Other accounts receivable, net	13	16,160	8,889
Balance as an Agent of the State and Municipal Support Fund Mandate	13	162	218
Foreclosed assets, net		16	20
Property, furniture and equipment, net	14	534	542
Permanent investments	15	74	74
Other assets	16		
Deferred charges, prepaid expenses and intangibles		249	378
Other short and long-term assets	16	3,733	6,113
		3,982	6,491
Total assets		$ 893,906	$ 843,025

Liabilities	Note	2019	2018
Deposit funding	17		
Time deposit	3		
Money market		$ 355,136	$ 335,792
Debt securities issued		62,167	49,732
		417,303	385,524
Interbank loans and loans from other agencies	18		
Immediately due and payable		1,050	2,363
Short-term		14,593	16,693
Long-term		18,613	20,652
		34,256	39,708
Creditors under security repurchase agreements	8	350,513	333,146
Derivatives	9		
Trading purposes		7,687	7,131
Designated as hedges		7,249	4,417
		14,936	11,548
Other accounts payables			
Income tax payable	19	66	108
Employee profit sharing payable	2-t	215	292
Creditors for settlement of transactions		-	166
Creditors for cash collateral received	9	2,707	5,862
Accrued liabilities and other accounts payables	3 and 20	5,487	5,307
		8,475	11,735
Taxes and deferred employee profit sharing, net	19	516	693
Deferred credits and advance payments from customers	3	5,259	5,625
Total liabilities		831,258	787,979
Commitments and contingent liabilities	22		
Stockholders' Equity	23		
Capital contributions			
Capital stock		17,604	17,604
Contributions for future capital increases formalized by its Governing Body		13,328	7,585
Premium on subscription of equity contribution certificates		7,004	7,004
		37,936	32,193
Earned capital			
Capital reserves		5,217	5,007
Retained earnings		17,794	15,898
Gain or loss on valuation of available-for-sale securities	7-b	(900)	(963)
Gain or loss on valuation of cash flow hedging instruments		3	65
Remeasurements of defined employee benefits.		(1,756)	747
Net income		4,354	2,099
		24,712	22,853
Total stockholders' equity		62,648	55,046
Total liabilities and stockholders' equity		$ 893,906	$ 843,025

Memorandum Accounts

	Note	2019	2018
Guarantees by endorsement executed		$ 1,132	$ 1,179
Contingent assets and liabilities	22-c	37,420	17,348
Credit commitments	22-d	38,354	45,221
Assets placed in trust or legal custody	29		
Trusts		459,214	489,005
Management trust of the Banobras retiree pension plan		22,741	21,664
Mandates		9,316	9,086
Financial Agent of the Federal Government		325	677
Assets in custody or administration	30	325,818	326,772
Collateral received by the entity	31	37,379	6,193
Collateral received and sold or furnished as a guarantee by the entity	31	33,626	5,983
Investment bank third party trading, net		-	41
Uncollected accrued interest derived from the non-performing loan portfolio		1,145	999
Other memorandum accounts	32	703,209	714,107
		$ 1,669,679	$ 1,638,275

Historical capital stock amounts to $14,178 at December 31, 2019 and 2018.

These balance sheets were prepared in conformity with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, and they were applied on a consistent basis. The transactions carried out by the Institution and reflected up to the dates referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

These balance sheets were approved by the Board of Directors, under the responsibility of the Directors who sign them.

The domain name of the web page of the world network known as "Internet" is: http://www.gob.mx/banobras/ and the route whereby the financial information, as referred to by Articles 180 to 184 of the General Provisions applicable to Credit Institutions, can be consulted directly is: http://www.gob.mx/banobras/acciones-y-programas/informacion-financiera

The web site of the National Banking and Securities Commission where information can be consulted which, in compliance with the General Provisions Applicable to Credit Institutions, is provided periodically to that Commission is: http://portafolioinfo.cnbv.gob.mx/PUBLICACIONES/Boletines/Paginas/BD.aspx

The accompanying notes are an integral part of these financial statements.

**BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO**

**Statements of income
For the years ended December 31, 2019 and 2018
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)**

	Note	2019	2018
Interest income		$ 78,131	$ 67,924
Interest expenses		65,962	56,148
Financial margin	26	12,169	11,776
Allowance for loan losses	12	244	467
Financial margin adjusted by credit risks		11,925	11,309
Commissions and fee income		1,068	1,358
Commissions and fee expense		56	53
Financial intermediation	27	2,810	609
Other operating income (expenses)	28	(8,213)	(7,475)
Administration and promotion expenses		2,721	2,866
		(7,112)	(8,427)
Operating income		4,813	2,882
Equity in earnings (losses) of unconsolidated subsidiaries, associates, and joint ventures		-	-
Income before taxes on earnings		4,813	2,882
Taxes on earnings due	19	582	788
Deferred taxes on earnings (net)	19	(123)	(5)
		459	783
Earnings (loss) before discontinued operations		4,354	2,099
Discontinued operations		-	-
Net income (loss)		$ 4,354	$ 2,099

These statements of income were prepared in conformity with the accounting criteria for Credit Institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, and they were applied on a consistent basis. All the income and expenditures derived from the transactions carried out by the Institution and reflected during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

These statements of income will be approved by the Board of Directors, under the responsibility of the directors who sign them.

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BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS,
SOCIEDAD NACIONAL DE CRÉDITO,
INSTITUCIÓN DE BANCA DE DESARROLLO

Statements of changes in stockholders' equity
For the years ended December 31, 2019 and 2018
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

	Capital contributions			Earned capital						
	Capital stock	Contributions for future capital increases formalized by its Governing Body	Premium on subscription of equity contribution certificates	Capital reserves	Retained earnings (loss)	Gain or loss on valuation of available-for-sale securities	Gain or loss on valuation of cash flow hedging instruments	Remeasurements for defined employee benefits	Net income (loss)	Total stockholders' equity
Balances at December 31, 2017	$ 16,736	$ 3,075	$ 4,797	$ 4,596	$ 14,537	$ (77)	$ 67	$ 213	$ 4,111	$ 48,055
Effect of a change in a particular standard (Note 12)	-	-	-	-	-	-	-	-	(2,215)	(2,215)
Balance adjusted retrospectively at December 31, 2017	16,736	3,075	4,797	4,596	14,537	(77)	67	213	1,896	45,840
Changes inherent to decisions by stockholders										
Allocation of net income to retained earnings	-	-	-	-	1,896	-	-	-	(1,896)	-
Result from corrections of errors	-	-	-	-	(124)	-	-	-	-	(124)
Creation of reserves	-	-	-	411	(411)	-	-	-	-	-
Capitalization of contribution for future capital increases	868	(3,075)	2,207	-	-	-	-	-	-	-
Contributions for capitalization (Note 23-b)	-	7,585	-	-	-	-	-	-	-	7,585
Changes inherent to recognition of comprehensive income										
Comprehensive income										
Net income (loss)	-	-	-	-	-	-	-	-	2,099	2,099
Gain or loss on valuation of available-for-sale securities	-	-	-	-		(886)	-	-		(886)
Gain or loss on valuation of cash flow hedging instruments	-	-	-	-	-	-	(2)	-	-	(2)
Remeasurements for defined employee benefits	-	-	-	-	-	-	-	534	-	534
Balances at December 31, 2018	17,604	7,585	7,004	5,007	15,898	(963)	65	747	2,099	55,046
Changes inherent to decisions by stockholders										
Allocation of net income to retained earnings	-	-	-	-	2,099	-	-	-	(2,099)	-
Result from corrections of errors	-	-	-	-	7	-	-	-	-	7
Creation of reserves	-	-	-	210	(210)	-	-	-	-	-
Contributions for capitalization (Note 23-b)	-	5,743	-	-	-	-	-	-	-	5,743
Changes inherent to recognition of comprehensive income										
Comprehensive income										
Net income (loss)	-	-	-	-	-	-	-	-	4,354	4,354
Gain or loss on valuation of available-for-sale securities	-	-	-	-	-	63	-	-	-	63
Gain or loss on valuation of cash flow hedging instruments	-	-	-	-	-	-	(62)	-	-	(62)
Remeasurements for defined employee benefits	-	-	-	-	-	-	-	(2,503)	-	(2,503)
Balances at December 31, 2019	$ 17,604	$ 13,328	$ 7,004	$ 5,217	$ 17,794	$ (900)	$ 3	$ (1,756)	$ 4,354	$ 62,648

These statements of changes in stockholders' equity were prepared in conformity with the accounting criteria for Credit Institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, and they were applied on a consistent basis. All the movements in the stockholders' equity accounts derived from the transactions carried out by the Institution during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

These statements of changes in stockholders' equity were approved by the Board of Directors, under the responsibility of the directors who sign them.

The domain name of the web page of the world network known as "Internet" is: http://www.gob.mx/banobras/ and the route whereby the financial information, as referred to by Articles 180 to 184 of the General Provisions applicable to Credit Institutions, can be consulted directly is: http://www.gob.mx/banobras/acciones-y-programas/informacion-financiera

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The accompanying notes are an integral part of these financial statements.

BANCO NACIONAL DE OBRAS Y SERVICIOS PÚBLICOS, SOCIEDAD NACIONAL DE CRÉDITO, INSTITUCIÓN DE BANCA DE DESARROLLO

Statements of cash flows
For the years ended December 31, 2019 and 2018
(Amounts in millions of Mexican pesos)
(Notes 1 and 2)

	2,019	2018
Net income	$ 4,354	$ 2,099
Adjustments on items that do not imply cash flow:		
Depreciation of property, furniture and equipment	8	9
Provisions (including net cost of employee benefits)	315	644
Taxes on earnings due and deferred	459	783
Discontinued operations	-	-
Others	(7)	(9)
	775	1,427
Operating activities		
Change in items related to operating activities		
Investments in securities	(24,542)	(50,160)
Debtors on repurchase agreements	(3,540)	2,060
Derivatives (asset)	(1,830)	(6,749)
Loan portfolio (net)	(14,108)	(38,574)
Foreclosed assets (net)	4	2
Other operating assets (net)	(7,806)	800
Deposit funding	31,779	22,497
Interbank loans and loans from other agencies	(5,453)	5,564
Creditors under security repurchase agreements	17,367	43,125
Derivatives (liability)	556	(407)
Other operating liabilities	(3,583)	1,868
Hedging instruments (hedged items related to operating activities)	6,858	6,525
Income tax paid	(410)	(522)
Net cash flows from operating activities	(4,708)	(13,971)
Investing activities		
Proceeds from dispositions of property, furniture and equipment	4	-
Net cash flows from investing activities	4	-
Financing activities		
Contributions for future capital increases	5,743	7,585
Net cash flows from financing activities	5,743	7,585
Net increase or (decrease) in cash and cash equivalents	6,168	(2,860)
Effects of changes in the value of cash and cash equivalents	(45)	(9)
Cash and cash equivalents at beginning of period	13,747	16,616
Cash and cash equivalents at end of period	$ 19,870	$ 13,747

These consolidated statements of cash flows were prepared in conformity with the accounting criteria for Credit Institutions issued by the National Banking and Securities Commission, in accordance with the provisions of Articles 99, 101, and 102 of the Credit Institutions Activities Act. Observance of those criteria is general and mandatory, and they were applied on a consistent basis. All the cash inflows and cash outflows derived from the transactions carried out by the Institution and reflected during the periods referred to above were carried out and valued in accordance with sound practices and the pertinent legal and administrative provisions.

These statements of cash flows will be approved by the Board of Directors, under the responsibility of the directors who subscribe them.

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The accompanying notes are an integral part of these financial statements.

1. Description of Institution

a. Operations

Banco Nacional de Obras y Servicios Publicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo (the Institution, the Bank or Banobras) operates in conformity with its own set of internal regulations, the Credits Institutions Act, and the general standards and provisions issued by the Ministry of Finance and Public Credit (SHCP), Central Bank of Mexico (Banxico), and the National Banking and Securities Commission (CNBV). The Institution is located at Avenida Javier Barros Sierra 515, Colonia Lomas de Santa Fe, Mexico City, Postal Code 01219.

In accordance with Articles 2 and 3 of its Internal Regulations, Banobras renders public banking and credit service, subject to the objectives and priorities of the National Development Plan, specifically the National Financing Development Plan. It mainly finances or refinances public or private investment projects in infrastructure and public services, as well assist in providing institutional strength to the Federal, State, and Municipal Governments, in order to contribute to the sustainable development of the country.

Moreover, in order to ensure the efficiency and competitiveness of the sectors under its responsibility in undertaking its corporate purpose, Banobras is authorized, among other aspects, to assist in strengthening the federal pact and free municipality within the scope of its competence. The Bank further promotes and finances the providing of infrastructure, public services, and outfit urban settings, as well as to strengthen states and municipalities institutionally, finance and provide technical assistance to Municipalities to have them draw up, manage, and execute their urban development plans. The Institution also provides technical and financial assistance to improve the use of loan proceeds and development of local administrations, finance the development of communication and transportation sectors and foster joint financing and assistance actions with other credit institutions, development funds, trusts, auxiliary credit organizations, and with public and private sectors.

Article 11 of the Internal Regulations of Banobras sets forth that the Federal Government will be liable at all times for borrowing transactions negotiated by the Bank with domestic individuals or legal entities, and with foreign private, government, and intergovernmental institutions.

The main sources of funds of the Institution are the placement of securities on national and international markets, as well as loans from international financial agencies, bilateral agencies, domestic and foreign banks.

b. Authorization

These notes were approved to be issued by the directors who sign them on March 12, 2020. They will subsequently submit to the Board of Directors for their approval, which has the authority to modify these financial statements.

Within its legal inspection and oversight powers, the CNBV can order the modifications or corrections that it deems necessary in its judgment, for the publication of the financial statements of credit institutions.

2. Basis of presentation and accounting policies

- **Basis of presentation**

- Financial statements

The financial statements at December 31, 2019 and 2018 have been prepared to comply with the legal provisions to which Banobras is subject as an independent juridical entity.

- Declaration of Compliance

The financial statements of the Institution are prepared in conformity with the accounting regulatory framework applicable to credit Institutions issued by the CNBV. That framework sets forth that in the absence of a specific accounting framework issued by the CNBV, entities must observe the accounting guidelines of Financial Reporting Standards (MX FRS), issued and adopted by the Consejo Mexicano de Normas de Informacion Financiera, A.C. (CINIF - Spanish acronym), and other supplementary provisions stipulated in MX FRS A-8 "Supplemental applicability", which arise from application, by contemplating specific standards for recognition, valuation, presentation and disclosure.

- **Accounting policies**

The most significant accounting policies and practices applied by Banobras management in the preparation of its financial statements are described below.

a. Functional and reporting currency

The provisions of the CNBV relative to issuing financial statements set forth that the amounts must be presented in millions of Mexican pesos, which correspond to its functional and reporting currency. Consequently, the accounting records of the Institution shown items in some captions of the financial statements with balances lower than the unit (one million of Mexican pesos), which is why they are not presented in those captions.

b. Use of judgments and estimates

The preparation of the financial statements requires that management make judgments, estimates, and assumptions that affect the recognized amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amounts of revenues, costs, and expenses recorded during the year. Real results can differ from these estimates and assumptions, and those effects are incorporated at the time at which they occur.

Judgments

The judgments used in the application of accounting policies, which have the most significant effect on the amounts recognized in the financial statements, are included in the following notes:

- Note 7. Investments in securities. With regard to the determination of impairment of investments classified as held-to-maturity and the factors to evaluate in the absence of observable information.
- Note 9. Derivatives and hedge transactions. With regard to the judgments used in mathematical models for the determination on their fair value, such as volatility of longer-term derivatives and discount rates, early redemption rates, and nonperformance assumptions of payment of securities.

Assumptions and uncertainty in estimates

Sources of uncertainty when applying the estimates made that have a significant risk of giving rise to an adjustment to the book amounts of assets and liabilities in the following year are included in the following notes:

- Note 12. Allowance for loan losses. With regard to the methodologies used for measuring additional risks considered to be outside of the standard portfolio rating methodologies.
- Note 21. Employee benefits: With regard to the key hypotheses used in the actuarial calculation of defined benefits obligation.

c. Recognition of the impact of inflation on the financial information

During fiscal 2019 and 2018, Banobras operated in a non-inflationary environment in the terms of MX FRS B-10 "Impact of inflation", insofar as accumulated inflation of the three prior annual fiscal years did not exceed 26%, as shown below:

		Inflation	
December 31,	UDI	Of the year	Depreciation
2019	6.399018	2.77%	15.03%
2018	6.226631	4.92%	15.71%
2017	5.934551	6.68%	12.60%

Pursuant to the foregoing, the Bank stopped recognizing the impact of inflation on its financial information, beginning January 1, 2008. Consequently, only nonmonetary items included in the balance sheets arising from periods prior to December 31, 2007 recognize the impact of inflation from the date of acquisition, contribution or initial recognition up to that date. Such items include property, furniture and equipment, foreclosed assets, intangibles, capital stock, capital reserves, and retained earnings.

d. Recording trades

Trading with securities, repurchase agreements (repos), derivatives and loans received, among other things, for its own account or for account of third parties are recorded on the date on which they are agreed upon, irrespective of the date of their settlement.

e. Valuation of financial instruments

For the determination of fair value of positions in financial instruments (derivative and non-derivative), both its own and of third parties, the Institution uses prices, rates, and other market information provided thereto by a price vendor authorized by the CNBV.

f. Foreign currency transactions

- Foreign exchange trading

Foreign exchange trading operations are recorded at contracted prices. When their settlement is agreed upon within a maximum term of two banking days subsequent to the execution date. These trades are recorded as restricted Cash and cash equivalents in reference to purchases, and an outflow of Cash and cash equivalents with regard to sales, against the corresponding clearing account. Gains or losses generated in this type of trading are recognized in the statement of income as part of the caption intermediation income.

- **Foreign currency balances**

Trades carried out are recorded in the currency in which they are agreed upon. For purposes of presentation of the financial information, foreign currency asset and liability balances are valued in Mexican pesos by using the exchange rate published by Banxico on the banking day subsequent to the date of the financial statements. The effects of variations in exchange rates in these items affect income for the year, such as exchange gains or losses in the Financial margin if they arise from items related to the trades and in Other income (expenses) of the trades in any other case.

g. Cash and cash equivalents

Cash and cash equivalents are represented mainly by bank deposits, which are recorded at their nominal value, which includes the addition uncollected accrued interest at the date of the balance sheet.

Financing granted on the interbank market referred to as "Call Money", whose term is less than or equal to three business days, are recorded in the caption of cash and cash equivalents. Interest earned by these trades is recorded in income as accrued, and forms part of the Financial Margin.

h. Investments in securities

They consist of debt instruments and stock or share certificates, and their classification is determined in accordance with management's intent at the time they are acquired. Each category has specific recording, valuation, and presentation rules in the financial statements, as described below:

- **Trading securities**

Trading securities are those securities acquired with the intent of selling them, obtaining gains derived from their returns and/or their price fluctuations. They are initially recognized at their fair value, including, if applicable, the discount or surcharge, and the costs of the trade are recorded in income. Interest accrued on debt securities is determined in conformity with the effective interest method, and its effect is recognized in the statement of income in the caption of interest earned. They are valued at fair value, and their effect is recorded in the statement of income in the caption of intermediation income.

- **Available-for-sale securities**

These are debt securities, whose intent is intended to obtain gains derived from price differences arising from short-term trading operations, as well as on those on which there is neither any intent nor capacity to hold them to their maturity; therefore, they are acquired with an intent other than that of trading securities or held-to-maturity securities.

They are initially recognized at their fair value, including, if applicable, the discount or surcharge, and the costs of the trade. Interest accrued is determined in conformity with the effective interest method, and its effect is recognized in the statement of income in the caption of interest earned. They are valued at fair value, and their effect is recognized in other income items in the caption of stockholders' equity. The gain or loss, which has been previously recognized in stockholders' equity at the time of the sale, is reversed to recognize it in income. The gain or loss on valuation attributable to hedged risks on securities designated as hedged items in fair value hedges is recognized in the statement of income, in the caption of Intermediation income.

When a decrease in the value of a security available-for-sale has been recognized directly in other comprehensive income items in stockholders' equity, and there are objective indicators that the security is impaired, the gain or loss on valuation recognized therein is reclassified to income for the year. The amount to be reclassified is determined as follows: the difference between: (i) the value at which the security was initially recognized, net of any payment of principal and amortization; and (ii) the present fair value of the security, less any impairment loss on the security indicated above previously recognized in income for the year. At December 31, 2019, there are no impairment indicators in investments in available-for-sale securities.

- **Held-to-maturity securities**

These are debt securities, whose payments are fixed or determinable with a fixed maturity with respect to which the Institution has both the intent and the capacity to hold up to their maturity. They are initially recognized at their fair value, including, if applicable, the discount or surcharge, and the costs of the trade.

It is valued at its amortized cost, which implies that amortization of the premium or discount and trade costs form part of accrued interest. Its effect is recognized in the statement of income in the caption of interest income.

Management regularly evaluates if there is objective evidence that the value of investments held in this classification shows any impairment indicator. In that case, the amount of the impairment loss is determined as the difference between the carrying value of the security and the present value of estimated cash flows, discounted at the original effective interest rate of the security, which is recognized in income for the year. At December 31, 2019 and 2018, there are no impairment indicators in investments in held-to-maturity securities.

In accordance with accounting criteria issued by the CNBV, a debt security cannot be classified as held-to-maturity if the Institution sold securities of this category or reclassified securities of this category to the available-for-sale category during the current fiscal year or during the two prior years, unless the amount sold or reclassified during the last 12 months does not represent more than 15% of the total amount of investments held to maturity at the date of the trade, irrespective of the unclassified securities, previously sold securities, or securities reclassified that have or do not have similar characteristics.

The Bank is considered to have maintained both the intent and capacity to hold securities to their maturity when sales or reclassifications have been made within 90 calendar days prior to their maturity or, if applicable, from the date of the option to repurchase the security by the issuer, or they occur after the entity has accrued or, if applicable, collected more than 85% of its original value in nominal terms, or they are attributable to an isolated event that is out of control of the entity that is not recurrent, and that it could not have been reasonably foreseen by the entity. In this latter case, sales must be attributable to any of the following circumstances:

a) Significant impairment in the credit rating of the issuer.
b) A change in the tax laws that affect the tax treatment of the yields of the instrument and, therefore, its value.
c) A business combination or a restructuring that implies the sale of a business segment, including the held-to-maturity financial instrument.
d) The modification of regulations to which an entity can be subject and affect the asset to stockholders' equity ratio.

At December 31, 2019, Banobras did not sell held-to-maturity securities, whereas Banobras sold held-to-maturity securities for fiscal 2018, which did not represent more than 5% of the total amount of those securities at the date of the trade.

- **Reclassifications of securities between categories**

In accordance with the accounting criteria of the CNBV, the Institution can make reclassifications from the category of held-to-maturity securities to available-for-sale securities, provided that there is neither the intent nor the ability to hold them to maturity. If applicable, the gain or loss on valuation is recognized in other items of comprehensive income, and it corresponds to the difference arising from comparing the carrying value with the fair value of the instrument.

The Institution must have express authorization issued by the CNBV to make reclassifications from the category of securities held-to-maturity or from securities available-for-sale. At December 31, 2019 and 2018, the Institution did not make reclassifications of securities between categories.

- **Recording dividends**

Stock dividends received are recorded by simultaneously allocating the number of shares of the corresponding issuer and the average unit acquisition cost of the securities, which is equivalent to recording a stock dividend at a zero value. Cash dividends paid by issuers are recorded in income for the year in the caption of interest income.

i. Repos trading

In repurchase transactions, the Institution acts as a buyer (borrower) or seller and recognizes an account receivable or account payable, respectively, at the agreed upon value. It is subsequently valued at its amortized cost during the validity of the trade, whereby interest earned and paid is recognized as accrued, in the captions of interest income and interest expenses, respectively.

Collateral received by the Institution as a buyer is recognized in memorandum accounts in the item of Collateral received by the Institution, which is valued at its fair value.

When the Institution furnishes the collateral that it received as a guarantee (in repurchase transactions) when acting as a buyer, an account payable is recognized which is valued at amortized cost. In this case, the spread between the value of the account payable and the amount of cash received is recognized in income in the caption of Intermediation income. In addition, the securities furnished as a guarantee are recognized in memorandum accounts in the caption of Collateral received and sold or furnished as a guarantee by the Institution, which are valued at their fair value.

The collateral furnished by the Institution acting as a seller is reclassified as restricted in the category of investments in securities in that in which they are recognized.

- **Compensation of financial assets and liabilities**

In the event that the Institution should assign the collateral that it received as security while acting as a buyer, the account payable recognized for this item is compensated by the account receivable recorded initially. The net debit or credit balance is presented in the captions of Debtors on repurchase/ resale agreements (debit balance) or Collateral sold or furnished as a guarantee (credit balance), as applicable.

j. Derivative financial instruments and hedge transactions

Banobras recognizes all derivative financial instruments in the balance sheet at their fair value, irrespective of whether they are designated as "trading" or as "hedges". Cash flows received or delivered for adjusting the instrument to fair value at the beginning of the trade, not associated to premiums on options, are considered as part of the fair value of the financial instrument.

The Institution uses derivative financial instruments designated as hedges as a tool that allows for designing and executive strategies to mitigate or eliminate various financial risks to which it is exposed, implement asset and liability management strategies and reduce their cost of funding. Transactions for trading purposes correspond mainly to those which the Institution carries out with its clients or with other brokers to meet the hedging needs of financial risks thereof, by generating positions which, in turn, the Institution hedges through mirror operations on the market.

At December 31, 2019 and 2018, total trading with derivative financial instruments contracted by Banobras have been carried out on over-the-counter markets. The fair value of these instruments is determined based on the valuation methodologies approved by the competent advisory boards of the Institution, which are consistent with valuation techniques commonly accepted and used on the market.

Costs associated to trading are recognized in income as incurred therein.

Notional amounts of contracts with derivative financial instruments are recognized in memorandum accounts in the caption of Other margin accounts.

The accounting treatment of derivative financial instrument contracts used by Banobras is discussed below:

- **Derivative financial instruments designated as hedges**

Derivative financial instruments designated as hedges are recognized at their fair value, as assets or liabilities, depending on the rights and/or obligations that they contain. Hedge accounting provisions are observed when recorded with regard to the recognition of the gain or loss on the hedging instrument and hedged item, which, in turn, considers if the hedge is defined as fair value or cash flow.

- **Fair value hedges**

Financial derivative instruments designated as hedges represent a hedge against exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments, or of a portion identified of those assets, liabilities or unrecognized firm commitments that is attributable to a particular risk that can affect the gain or loss for the period. With regard to the Institution, fair value hedges correspond to interest rate and exchange rate risks of financial assets and liabilities.

Firm commitments correspond to mandatory agreements for the exchange of a determined amount of proceeds at a specific price and on an established date or dates.

Changes in the fair value of hedging instruments are recognized in income in the caption of Intermediation income, together with the gain or loss on valuation at fair value of items attributable to the hedged risk.

Adjustments on the fair value of hedged items associated with interest rate risks of a portion of a portfolio comprised of financial assets and liabilities are presented in the balance sheet in the captions of Valuation adjustment on financial assets designated as hedges or financial liabilities designated as hedges, as appropriate.

- **Cash flow hedges**

Derivative financial instruments designated as cash flow hedges represent a hedge of the exposure to the change in cash flows of a forecasted transaction that: (i) is attributable to a particular risk associated with a recognized asset or liability (such as the total or some of the future interest payments applicable to a credit or debt instrument at a variable interest rate), or with a highly likely event; and that (ii) it can affect income of the period.

The effective portion of the fair value of the hedging instrument is recognized in stockholders' equity, the Gain or Loss on valuation of cash flow hedge instruments, as an item belonging to comprehensive income. The ineffective part is recognized immediately in income, in the caption of Intermediation INCOME. The effects of valuation in stockholders' equity are reclassified to the statement of income to the degree in which the hedged position affects the foregoing.

- **Hedge effectiveness**

Hedge instrument effectiveness is evaluated monthly. In the event that management should determine that a financial derivative instrument is no longer highly effective as a hedge, it stops applying the hedging accounting scheme retrospectively with regard to those derivatives, which are reclassified to a trading position if maintained. The significant practices, policies, and procedures implemented by the Institution with regard to comprehensive risk management are indicated in Note 33.

- **Forward contracts (forwards)**

Forward contracts are those contracts whereby an obligation to buy or sell a financial asset or an underlying asset on a future date is established in an amount, quality, and prices pre-established in the contract. The party that binds itself to buy assumes a long position, and the party that binds itself to sell assumes a short position in these trades.

An asset portion and a liability portion are recorded for forwards at the initially contracted price multiplied by the notional amount. They are valued at fair value, which corresponds to the present value of the cash flow to be received and delivered, as appropriate, projected in accordance with applicable implicit future rates and discounted at the prevailing interest rates on the market on the date of valuation. The effect of valuation is recognized in the statement of income in the item of Intermediation income. The net balance (position) of the buy and sell trades is presented in the balance sheet, either in the asset or in the liability, in the caption of Derivatives held for trading or Derivatives designated as hedges, in accordance with their debit or credit nature, respectively.

At December 31, 2019 and 2018, Banobras holds positions in forward contracts designated as fair value hedges and positions for trading purposes

- **Swaps**

Swaps are recorded at the agreed upon price at the inception of the contract. They are valued at fair value, which corresponds to the present value of the expected cash flows to be received and delivered, as appropriate, projected in accordance with applicable implicit future rates and discounted at the prevailing interest rates on the market on the date of valuation. Notional amounts are recognized in the balance sheet when their exchange is agreed upon as assets and/or liabilities, as appropriate. Otherwise, they are only recognized in memorandum accounts.

Changes in fair value of trading swaps are recognized in the statement of income, in the caption Intermediation income. The effects of valuation of swaps designated as hedges are recognized in the statement of income or in stockholders' equity, if the hedging strategy is fair value of cash flows, respectively.

Interest earned on swaps designated as hedges are recognized in the Financial margin, and interest earned on trading swaps is recognized in the caption of Intermediation income. Exchange gains or losses on derivative financial instruments form part of the Financial margin.

Management evaluates if there is objective evidence that a financial asset arising from the rights set forth in the derivatives experiences credit risk impairment (counterparty). In that case, the carrying value is written down to its estimated recovery value and the amount of the loss is recognized in income for the year in the caption of Intermediation income.

For purposes of presentation in the financial statements, the net balance (position) of flows expected to be received or delivered by contract is presented in the balance sheet, either as an asset or as a liability, in accordance with its debit or credit nature, respectively, in the items of trading Derivatives or Derivatives designated as hedges, as appropriate.

At December 31, 2019 and 2018, Banobras holds positions in trading swaps and swaps designated as fair value and cash flow hedges.

- Collateral furnished and received

To assure payment of the considerations of this type of trades carried out on over-the-counter-markets, collateral is generally received or delivered in cash as a guarantee, which is recognized in the caption of other receivables with regard to collateral furnished, whereas collateral received is recognized in the caption of other payables.

Collateral received or delivered other than cash, that is, in securities is recognized depending on the right existing thereon. Accordingly, securities received as collateral are recognized in the caption of Memorandum accounts in Collateral received by the entity. Securities delivered as collateral are reclassified and presented as restricted.

- Embedded derivatives

Embedded derivatives are those components of a contract that are explicitly not intended to give rise to a derivative financial instrument in itself, but the embedded risks generated by those components differ in their economic characteristics and risks of those of that contract (host contract) and, therefore, they are conducive to behavior and characteristics similar to those presented in a common derivative financial instrument.

When the economic characteristics and risks of the embedded derivative are not closely related to the characteristics and risks of the host contract, and the host contract is not valued at its fair value and affect the results of the Institution, the embedded derivative is segregated for valuation purposes and it is treated as a derivative for accounting purposes.

At December 31, 2019 and 2018, based on the analysis performed by the Institution's Management, embedded derivatives were not identified that must be segregated.

The significant practices, policies, and procedures implemented by the Institution with regard to comprehensive risk management are indicated in Note 33.

k. Clearing accounts

Clearing accounts represent the balance of repurchase trading and trading of securities or currencies that are not settled on the same day on which those trades are agreed upon. Foreign currency trading in which the immediate settlement is not agreed same-day value date is recorded in clearing accounts in the amount receivable or payable in Mexican pesos.

Debit and credit clearing accounts are presented in the captions of Other accounts receivables and payables for settlement of securities traded, respectively, and they are offset when there is a contractual right to offset the amounts recognized and the intent to settle the net amount or realize the asset and write off the liability simultaneously.

l. Loan portfolio

Accounting records

- Loan portfolio records

Lines of credit granted to clients are recorded in memorandum accounts in the caption of loan commitments on the date on which they are authorized by the Internal Credit Committee, the Executive Credit Committee or the Board of Directors, in accordance with the loan manual of the Bank. Drawdowns carried out by borrowers on the authorized lines of credit are recorded as a loan portfolio as of the date on which the proceeds are distributed or the corresponding consumption is carried out.

The amount recorded in the loan portfolio represents the outstanding balance of the amounts effectively delivered to the borrowers, plus unearned accrued interest at the date of the balance sheet, in conformity with the payment scheme corresponding to each loan.

Capitalized lease transactions are recorded as direct financing, by considering the total rents agreed upon in the respective agreements as loan portfolio. The interest earned on these transactions is the equivalent to the difference between the value of the rents and the cost of the leased assets, which is recognized as a deferred credit and recorded in income as accrued.

Value added tax assessed on capitalized lease transactions are recognized on the date of each disbursement of the line of credit granted. It is presented in the caption of Other receivables, and it is recovered on the due dates of the rents agreed upon contractually, in order to be paid to the tax authorities.

The option to buy at a reduced price of capitalized lease agreements is recognized as income on the date on which it is collected or as amortizable income during the remaining period of the agreement, at the time at which the lessee is bound to adopt that option.

Lease agreements are classified as capitalized if the agreement transfers the ownership of the leased asset to the lessee upon termination of the lease agreement. The agreement contains an option to purchase at a reduced price. The lease term is substantially equal to the remaining useful life of the leased asset, or the present value of the minimum payments is substantially equal to the market value of the leased asset, net of any benefit or scrap value.

Advances furnished by Banobras for the acquisition or installation of assets that will form part of lease agreements already committed with clients are recognized as part of the loan portfolio. The Institution accrues interest on those advances that are recognized in the Statement of Income in the financial margin as accrued.

Interest applicable to current credit operations is recognized and applied to income as accrued, irrespective they become due and payable. Interest accrual is suspended at the time at which loans are reclassified to the nonperforming portfolio. An allowance is created in an amount equivalent to the total unearned ordinary interest applicable to the total loans classified as nonperforming at the time such a loan is reclassified to the nonperforming portfolio.

Commissions collected on loans granted are recognized in income on a deferred basis, based on the duration of the financing granted. Commissions collected on restructurings or renewals are likewise recognized in income on a deferred basis, and they are amortized during the new loan term.

Commissions collected on lines of credit opened that have not been drawn down are recognized in income on a deferred basis as interest earned in a twelve-month period. If the line is exercised, the amortization period is modified to adjust it to the drawdown period carried out. The remaining balance of cancellations before the twelve-month period is recognized in income for the year in the caption Commissions and fees.

Incremental costs incurred in loans granted are amortized in income, based on the periods in which commissions collected on assets generated are amortized.

The corresponding amounts of guarantees are recognized in memorandum accounts in the caption of Contingent assets and liabilities. Commissions collected on these operations are recognized in income at the time at which they are generated.

Loans to employees and former employees are presented in the captions of Other accounts receivables and Loan Portfolio, respectively. Interest on loans to employees is presented in the caption of Other operating income (expenses) of the statement of income, whereas the financial burden of loans to former employees is presented in the Financial margin.

- **Reclassification to past-due loan portfolio**

When amortizations of loans or interest are not received on their due date, in accordance with the payment scheme, the total of the principal and interest is reclassified to the past-due loan portfolio under the following assumptions:

• When it is known that the borrower is declared in commercial bankruptcy, in conformity with the Mexican Bankruptcy Act.

  Without prejudice to the provisions in this number, loans on which payment continues to be received in terms of the provisions of subsection VIII of Article 43 of the Mexican Bankruptcy Act, as well as loans granted in reliance on Article 75 in connection with subsections II and III of Article 224 of the Law referred to above, will be reclassification to the nonperforming portfolio when they incur in the assumptions provided for in the next number.

• When amortizations have not been totally settled in the terms originally contracted, considering the following:

  - If debts consist of loans with a single payment on principal and interest at maturity and present 30 or more calendar days in arrears;

  - If debts refer to loans with a single payment on principal at maturity and periodic payments on interest that present 90 or more calendar days in arrears of the respective interest payment or 30 or more calendar days in arrears of the principal;

  - If debts consist of loans with periodic partial payments on principal and interest, including housing loans, and present 90 or more calendar days in arrears;

  - If debts consist of revolving loans and present two monthly billing periods in arrears or in the event that the billing period is other than monthly, that which corresponds to 60 or more calendar days in arrears.

Nonperforming loans are reclassified to the performing loan portfolio at the time at which the borrower totally settles the outstanding balances.

The Institution periodically evaluates if a nonperforming loan must remain on the balance sheet or written off, as long as it has been provided for at 100%. The unpaid balance of the loan is written off against Allowance for loan losses previously created for each loan.

- **Impaired portfolio**

The Institution performs a monthly analysis of the economic environment in which its borrowers operate to identify the impaired portfolio on a timely basis, in terms of Accounting Criterion B-6, Loan portfolio.

Those commercial loans, consumer and housing credit with a "D" and "E" risk are identified as impaired portfolio and, finally, the loans that are in the assumptions indicated by the CNBV to be reclassified to the nonperforming portfolio.

- **Loan restructurings and renewals**

Loan restructurings consist of expanding guarantees that support the drawdowns made by borrowers, as well as modifications to the original terms contracted of the loans that refer to the payment scheme, interest rate or currency, granting a waiting period with regard to meeting payment obligations or extending the term of the loan.

Loan renewals are transactions in which the balance of the loan is settled, in whole or in part, through an increase in the original amount of the loan, or with financing from another loan contracted with the same Institution, in which the same debtor or another person who pose common risks due to their patrimonial or business ties.

Nonperforming that are restructured or renewed will remain in the past-due loan portfolio, as long as there is not any evidence of sustained payment, which consists of compliance by the borrower without any delay in the total amount due and payable of capital and interest, of three consecutive amortizations of the loan payment scheme as a minimum or a lump-sum payment with regard to loans with amortizations that cover periods exceeding 60 calendar days.

Three consecutive amortizations of the original payment scheme are considered in restructurings in which the periodicity of payment is modified to shorter periods than those originally agreed upon, for purposes of observing the sustained payment.

Loans with a single payment on principal and/or interest at their due date that are restructured during the loan term or renewed at any time are considered as nonperforming portfolio as there is not any evidence of sustained payments. Performing loans other than those already indicated that are restructured or renewed without having elapsed at least 80% of the original loan term are considered performing only when the borrower has covered the accrued interest and principal of the original amount of the restructured or renewed loan, which should have been covered at the renewal or restructuring date. Otherwise, they are considered nonperforming as long as there is no evidence of sustained payment.

Likewise, if those loans are restructured or renewed during the 20% of the end of the original loan term, they are considered performing only when the borrower has covered the accrued interest and principal of the original amount of the restructured or renewed loan, which should have been covered at the renewal or restructuring date and which accounts for 60% of the original amount of the loan. Otherwise, they are considered nonperforming as long as there is no evidence of sustained payment.

Revolving loans that are restructured or renewed at any time are considered performing only when the borrower has covered the accrued interest, the loan does not have past-due billing periods, and there are elements that justify the creditworthiness of the debtor.

The foregoing does not apply to those restructurings which, at the date of the modification of the original terms of the loan, present compliance of payment of capital and interest, and the guarantees are only extended or improved or the rate is improved in benefit of the borrower, or the currency is modified and the rate corresponding to the new currency is applied or the due date is changed, and this does not imply exceeding or modifying the periodicity thereof.

- **Foreign currency hedge financing mechanism**

Mandate of the Supporting Fund to States and Municipalities (FOAEM, for its acronym in Spanish)

The FOAEM is a mandate whose participants are the Federal Government as the principal and Banobras as the agent, which is intended to hedge the foreign exchange risk. This scheme enables loans granted, supported by foreign proceeds, to be drawn down and paid by borrowers in Mexican pesos and/or in Investment Units (UDIS), thereby assuring payment in foreign currency.

The journal entry of the operations of the FOAEM is recognized at notional value to balance the short position in foreign currency, arising from loans from international financial institutions and the long position in UDIS, arising from the loans with its counterparties in Mexican pesos. For the presentation in financial statements, the net value of both positions valued in local currencies is zero.

Proceeds delivered to the mandate arising from recovered loans are controlled through a credit account known as "Credit balance as Agent of the Mandate of the Supporting Fund to States and Municipalities", provided that the hedging costs and effects of fluctuation of UDIS are recorded in a borrowing account known as "Balance payable as agent of the Mandate of the Supporting Fund to States and Municipalities". For their presentation in the financial statements, the net of both is presented in the caption referred to as balance as an Agent of the Support to States and Municipalities.

The foreign currency component contained in foreign currency denominated loan agreements as a hedge under the scheme described above is closely connected thereto; therefore, it is not required to be separated and valued as an embedded derivative.

m. Allowance for loan losses

The allowance for loan losses is determined based on technical and general operating provisions applicable to credit institutions, issued by the CNBV with regard to rating loan portfolios, in conformity with the provisions of Article 76 of the Credit Institutions Act.

The methodology for determining preventive estimates for credit risks is described in Note 33 a) roman numeral x).

The increases or decreases in the allowance for loan losses arising from the rating process are recorded by allocating the Financial margin adjusted by credit risks. In the event that the decreases in that estimate should exceed the amount created in the period in question by type of portfolio (commercial, consumer or housing), the excess is recognized in the caption of Other operating income.

The Institution creates a 0.5% reserve for financing granted to the Federal Government or with its express guarantee, in accordance with the provisions of Article 112, Subsection VI, roman numerals from i to viii of the Single Banking Circular (CUB for its acronym in Spanish).

- **Additional allowance for loan losses recognized by the CNBV**

The additional allowance for loan losses recognized by the CNBV is that which is created to cover risks that are not provided for in the different portfolio rating methodologies. Prior to their creation, the following must be reported to the CNBV: i) origin of the estimates; ii) methodology for their determination; iii) amount of estimates to be created; and iv) estimated time that they will be necessary.

n. Permanent investments

This caption includes shares in auxiliary banking entities and related services, as well as certificates of capital contribution of development banking institutions, which are recorded at their acquisition cost, and restated up to December 2007.

ñ. Property, furniture and equipment

The book value of these assets is presented in the financial statements, which are initially recorded at acquisition cost, by reducing accumulated depreciation. Depreciation is calculated through the straight-line method on the book value of assets based on annual rates that reflect the useful life of assets. Maintenance and repair expenses are recognized in income when incurred.

o. Foreclosed assets

Foreclosed assets are recorded by comparing the value of the asset or accrued or past-due amortizations that gave rise to the foreclosure, net of estimates, with regard to the value of the foreclosed asset. If the net asset is higher than the value of the foreclosed asset, the difference is recognized in income for the year in Other operating expenses, whereas the value of the foreclosed asset is adjusted to the net value of the asset if it is lower.

The institution creates provisions on the book value of these assets to recognize the potential losses of value due to time elapsed. That provision is created based on percentages established by the CNBV by type of asset (private or real property) and based on the time elapsed, beginning as of the date of the foreclosure or dation in payment.

p. Other assets

The Institution recognizes the assets allocated to create an irrevocable trust fund at their fair value to cover the obligations arising from the labor rights of its employees at retirement. These assets are increased by the contributions made to the fund and the expected yields on the plan assets, determined based on an actuarial calculation performed by independent appraisers, and they are reduced by retirements or divestitures therefrom (Note 2s). The balance of assets is presented, net of the corresponding labor obligations in the balance sheet. When labor obligations are lower than the asset recognized, the resulting balance is presented in the caption of Other assets. Otherwise, the balance is presented in the caption of Other accounts payables.

Advance payments to service providers are also recognized in this caption, which are amortized on a straight-line pursuant to the term of the contract. Debt issue expenses are amortized on a straight-line throughout the term of the issue. Prepayments to supervisory agencies are amortized in the period, and tax recoverable balances are recognized as well.

q. Impairment of long-lived assets

The Institution annually analyzes possible impairment indicators of long-lived, tangible, and intangible assets that could give rise to the recognition of a write-down in the value of those assets. At December 31, 2019, there have not been any impairment indicators.

r. Deposit funding

Financing obtained on the interbank market referred to as "Call Money", whose term is less than or equal to three business days, are presented in the caption of Interbank loans and from other agencies, on the line-item of immediately due and payable. Interest payable on these trades is recorded in income as accrued, and forms part of the Financial margin.

Liabilities for funds raised by borrowing through time deposit and negotiable instruments, as well as interbank loans and loans from other agencies are recorded based on the contractual value of the obligation. Interest payable is recognized in income in the financial margin as accrued, based on the agreed upon interest rate.

Securities included in deposit funding, which are part of direct bank deposits, are classified and recorded in accordance with the following:

- Securities placed at nominal value. These securities are recorded based on the contractual value of the obligation, and interest is accrued directly in income;

- Securities that are placed at a price other than nominal value (with a premium or at a discount). They are recorded based on the contractual value of the obligation, by recognizing a deferred charge or credit on the difference between the nominal value of the security and the amount of cash received thereon, which is amortized in income during the term of the security.

- Securities placed at a discount. The issue is recorded based on the amount of cash received for them and the gradual discount is recognized in income as it accrues against the liability to reach its nominal value at maturity.

At December 31, 2019, the time deposit is carried out mainly by placing promissory notes with yields payable at maturity placed at a discount, as well as certified banking deposits (CEDES-Spanish acronym) and securities exchange certificates (CEBURES-Spanish acronym) placed at their nominal value.

Commissions paid for loans received by the Institution or from placing bank debt are recorded in income for the year in the caption of Commissions and fee on the date on which they are generated.

Both issue expenses and the discount or premium of the debt placement are recorded as a deferred charge or credit, as appropriate. They are recognized in income for the year as expenses or interest earned as accrued, as appropriate, taking into consideration the term of the securities that gave rise thereto.

The premium or discount on placement is presented in the liability that gave rise thereto, whereas the deferred charge on issue expenses is presented in the caption of Other assets.

s. Employee benefits

- Direct short-term benefits

Direct short-term employee benefits are recognized in income for the period in which services rendered are accrued. A liability is recognized on the amount expected to be paid if the Institution has a legal or assumed obligation, as the result of prior services rendered and the obligation can be estimated reasonably.

- Direct long-term benefits

The net obligation of the Institution in connection with direct long-term benefits except for deferred PTU (Note 19) expected to be paid by the Institution after twelve months from the date of the most recent statement of financial position presented is the amount of future benefits that employees have gained in exchange for their service in the current fiscal year and in prior years. This benefit is discounted to determine its fair value.

- Termination benefits

A liability is recognized for termination benefits and a cost or expense when the Institution does not have a different realistic alternative than that of dealing with the payments, and it cannot withdraw the offer of those benefits, or when it meets the conditions for recognizing the costs of restructuring, whichever occurs first. If they are not expected to be liquidated within the 12 months subsequent to fiscal year end, then they are discounted to determine their fair value.

- Defined benefit plan

The Institution has established a defined pension plan that covers retirement pensions, seniority premiums, and legal severance payments to which employees are entitled, in accordance with the Federal Labor Act, as well as the obligations relative to postretirement benefits, such as medical services, among other things. The plan is closed and it was in effect up to September 1, 2009.

The calculation of obligations for defined benefit plans is performed annually by actuaries, by using the projected unit credit method. The labor cost of current service, which represents the cost of the period of employee benefits for having completed one more year of years of service based on the benefit plans, is recognized in management and promotional expenses. The Institution determines net interest expense (income) on the net liability (asset) for defined benefits of the period, by multiplying the discount rate used to measure the defined benefit obligation (DBO) for the net liability (asset) defined at the beginning of the annual period reported, taking into account the changes in the net liability (asset) for defined benefits during the period, as a consequence of the estimates of contributions and payments of benefits.

The plan amendments that affect the cost of prior services are immediately recognized in income in the year in which the modification occurs, without any possibility of deferment in subsequent years. Moreover, the effects of events of liquidation or reduction of obligations in the period, which significantly reduce the cost of future services and/or significantly reduce the population subject to the benefits, respectively, are recognized in income for the year.

Plan assets are managed through an irrevocable trust. The Institution makes the contributions determined in that actuarial calculation and recognizes the fair value provided therein.

The remeasurements generated beginning January 1, 2016 (formerly actuarial gains and losses) arising from differences between projected actuarial hypotheses and the real amounts at the end of the period are recognized in the period in which they are incurred as part of comprehensive income in stockholders' equity. They are subsequently recycled to income for the period, based on the expected life of the retired group.

- **Defined contribution plan**

As part of the review performed of general working conditions performed in September 2009, the Institution implemented a defined contribution plan with mandatory individual accounts for newly hired workers and optional for those who joined the Institution prior to that date, and that were in the Defined pension plan. Employees who decided to change to this plan cannot go back to the Defined benefits plan.

With regard to pensions in this plan, Banobras makes biweekly contributions, and recognizes their effect in income, in the caption of Administrative and promotional expenses. Post-retirement benefit liabilities arising from seniority premiums to which employees are entitled in accordance with the Federal Labor Act, other post-employment benefits such as medical service and other benefits arising from termination due to causes other than restructuring are recognized based on the actuarial calculation performed by independent expert appraisers. The net cost for the period is recognized by allocating it in income in the caption of administrative and promotional expenses.

Plan assets are managed through an irrevocable trust. The Institution makes the contributions determined in that actuarial calculation and recognizes the fair value provided therein.

- **Initial accrued effect at January 1, 2016 for update of MX FRS D-3 "Employee benefits".**

Banobras, as a Development Bank, will start to recognize the balance of plan amendments nor yet recognized for accounting purposes, and the accrued balance of gains or losses on the plan amendment not yet recognized no later than fiscal 2021, by recognizing 20% beginning with its initial application, and an additional 20% in each subsequent year until reaching 100% in a maximum period of 5 years.

The initial amount with amounts at January 1, 2016 of the accrued balance of losses on the defined benefit plan not yet recognized was $7,029, whereas the balance of plan amendments not yet recognized amounted to $75.

Moreover, the initial amount with amounts at January 1, 2016 of the accrued balance of losses on the mixed contribution plan not yet recognized was $5, whereas the balance of plan amendments not yet recognized amounted to $4.

In addition, and since MX FRS D-3 "Employee benefits" sets forth that remeasurements recognized in Other Comprehensive Income (OCI) must subsequently be recycled to income for the year based on the expected life of the retired group at the beginning of each period, that is, by forming part of the net cost for the period and to avoid a distortion in stockholders' equity of the Institution, an amount equivalent to recycling determined in the year is being recognized therein and in the liability, which mainly includes the recycling determined with the change of standard, which amounts to $470 for the Defined benefit plan, whereas the defined contribution plan amounts to $2.

The foregoing is not an advanced recognition of the changes due to reissue, indicated in the resolution referred to above that modifies the CUB.

- **Net cost of the period**

At December 31, 2019, the net cost of the period for the Defined benefit plan amounted to $251, whereas that cost for the Defined contribution plan amounted to $28. Moreover, at December 31, 2018, the net cost of the period for the Defined benefit plan amounted to $572, whereas that cost for the Defined contribution plan amounted to $32.

t. Employee Profit Sharing (PTU, for its acronym in Spanish)

The Institution determines the base of PTU in accordance with the procedure set forth in article 9 of the Mexican Income Tax Regulations (LISR, for its acronym in Spanish) in effect at December 31, 2019. In fiscal 2019 and 2018, the provision for PTU amounted to $215 and $292, respectively.

It is important to note that the obligation to pay PTU is determined based on observing and complying with remuneration related provisions and personal services of workers who work at the development bank and will be considered for purposes of the provisions of article 30 of the Internal Rules of Procedure of the Bank.

Deferred PTU is determined based on the asset and liability method. Under this method, a 10% rate is applied to all differences arising between book and tax values of assets and liabilities. At December 31, 2019 and 2018, the deferred PTU liability amounts to $157 and $211, respectively (Note 19-b).

PTU assessed and deferred is presented in the statement of income in the caption of Administrative and promotional expenses.

u. Income tax

Income tax is comprised of the tax assessed and deferred for the period. The tax assessed is attributable to income for the period, whereas deferred tax can create an effect payable by or in benefit of the Institution attributable to the temporary differences between book and tax values of assets and liabilities, losses, and tax liabilities.

Income Tax assessed is determined in accordance with currently enacted tax legislation. This tax represents a liability of a term less than one year. When advances made exceed the tax determined for the year, the excess generated is a receivable.

Deferred tax is determined under the asset and liability method, by applying the income tax rate (ISR).

The deferred tax rate is that which is set forth in tax provisions at the date of the financial statements or, if applicable, that tax rate that will be in effect at the date on which temporary differences are reversed, tax loss carryforwards are realized or tax liabilities are applied against tax assessed for the period.

v. Assets and liabilities in investment units (UDIS)

Assets and liabilities denominated in UDIS are presented in the balance sheet at the Mexican pesos value of the UDI at the date of the financial statements. The value of the UDI at December 31, 2019 and 2018 amounts to $6.399018 and $6.226631, respectively. The value of the UDI at the issue date of these financial statements (March 12, 2020) is $6.470059.

w. Memorandum accounts

The Institution records financial and non-financial information complementary to the items presented in the balance sheet in memorandum accounts, mainly for the opening of lines of credit executed with borrowers, guarantees, securities in custody and management valued at their fair value, trust assets (when Banobras acts as a trustee), and assets and liability positions of financial instruments generated by repurchase agreements (repos). Notional amounts of derivative financial instruments are also recognized in memorandum accounts, which are maintained contracted and budgetary control items.

x. Financial Agent of the Federal Government

The transactions carried out by the Institution for account and order of the Federal Government under the concept of mandate are recorded in memorandum accounts. Brokerage fees generated by managing these transactions are recorded in income as generated.

Transactions other than those carried out under the concept of mandate in which the Institution assumes the rights and obligations arising from loan portfolio agreements and loans with agencies are recorded in accordance with the type of transaction, that is, as a loan portfolio or as a loan from foreign banks and other agencies, as the case may be. These transactions are presented in the captions of Loan portfolio and Interbank loans and from other agencies, respectively.

y. Commission income and expense

Commissions and fees collected and paid are those generated by credit operations other than those that give rise thereto. They are generated for rendering services, among other things, such as management, transfer, custody or fund management, trustee activities, and for furnishing guarantees by endorsement. They are recognized in income at the time when they are accrued.

z. Intermediation income

It arises mainly from the gain or loss at fair value of trading securities and financial operations arising from trading and hedging, as well as the gain or loss from buying and selling securities, currencies, and derivative financial instruments.

aa. Comprehensive income

The comprehensive income of the Institution is represented by net income for the year, plus those items whose effect is reflected directly in stockholders' equity. They are not contributions, decreases, and capital contributions.

ab. Segment information

The Institution has identified the operating segments of its different activities, by considering each one as a component in its internal structure, with risks and particular yield opportunities. These components are reviewed regularly to allocate appropriate monetary proceeds for their operation and performance evaluation (Note 25).

3. Reclassifications and error corrections

a. Reclassifications

The reclassification whereby the presentation of the Deposit certificates of the caption of Debt securities issued to the caption of Time deposit, in order to make their presentation comparable with the information of fiscal 2019 is presented below.

- Balance sheet

	Prior presentation	Reclassification	New presentation
Liabilities			
Deposit funding			
Time deposit			
Money market	$ 285,750	$ 50,042	$ 335,792
Debt securities issued	99,774	(50,042)	49,732
	$ 385,524	$ -	$ 385,524

Likewise, the reclassification is shown whereby the presentation was modified of Other liabilities and other payables to deferred credits and advance payments from customers.

Liabilities	Prior presentation	Reclassification	New presentation
Other payables			
Income tax payable	$ 108	-	$ 108
Employee profit sharing paid payable	292	-	292
Creditors on settlement of transactions	166	-	166
Creditors for cash collateral received	5,862	-	5,862
Accrued liabilities and other payables	5,316	$ (9)	5,307
	11,744	(9)	11,735
Deferred credits and advance payments from customers	$ 5,616	$ 9	$ 5,625

b. Error correction

Error corrections were recorded in the caption of Retained earnings in the amount of $7 in fiscal 2019, which are explained basically by adjustments in loan portfolio operations.

Error corrections were recorded in the caption of Retained earnings in the amount of $124 in fiscal 2018, which are explained below:

- Decrease in the deferred income tax liability amounting to $117 generated by a deferred tax asset amounting to $66 (for recognition of a deferred PTU liability) and for the decrease of a deferred tax liability amounting to $51 (arising from excluding the value of land from the calculation of the deferred tax);

- Creation of a deferred PTU liability amounting to $221;

- Reversal of the excess estimated income tax payments for $18 made for a trust; and

- Book entry of interest amounting to $2 arising from the late income tax payment pursuant to interest payments made to a foreign resident.

4. Related parties

Asset and liability operations

At December 31, 2019, loans in which the Institution acts as a Financial Agent of the Federal Government, including the related liabilities stated in Mexican pesos, are as follows:

	2019			2018		
Financial agent:	Asset transaction	Liability transaction	Long (short) position	Asset transaction	Liability transaction	Long (short) position
Euros	$ 498	$ 497	$ 1	$ 581	$ 580	$ 1

The resulting long positions are covered by the Federal Government.

The balances of related party transactions, if applicable, are disclosed in the subsequent notes, relative to the items of the balance sheet and the statement of income.

5. Foreign currency balances

At December 31, 2019 and 2018, the financial statements contain foreign currency denominated rights and obligations, as follows:

	Foreign currencies (millions)		Equivalence in Mexican pesos	
Type of currency	2019	2018	2019	2018
Assets:				
US dollars	2,892	3,081	$ 54,555	$ 60,547
Japanese yen	51,900	53,780	9,010	9,630
Euros	44	69	934	1,558
			64,499	71,735
Liabilities:				
US dollars	2,795	3,050	52,734	59,942
Japanese yen	50,167	51,104	8,709	9,150
Euros	34	60	727	1,337
			62,170	70,429
Long position			$ 2,329	$ 1,306

At December 31, 2019 and 2018, the exchange rates used to value foreign currency denominated assets and liabilities in Mexican pesos are:

	Amounts in Mexican pesos	
	2019	2018
US dollars	$ 18.8642	$ 19.6512
Japanese yen	0.17361	0.17906
Euros	21.17506	22.46918

At March 12, 2020, issue date of the financial statements, the U.S. dollar exchange rate is $22.1518, the Japanese yen is $0.2135 Mexican pesos, and the Euro is $24.8953 Mexican pesos.

In conformity with Circular 3/2012 issued by Banxico, at the end of each business day, the Institution may maintain an exchange risk position, both overall and for each currency, which does not exceed the equivalent of 15.0% of its basic capital. At December 31, 2019 and 2018, the Institution complies with this limit.

6. Cash and cash equivalents

At December 31, 2019 and 2018, this caption is summarized as follows:

	2019	2018
Cash, bills, and coins	$ 1	$ 1
Deposits in domestic and foreign banks (a)	696	945
Deposit in Banxico (b)	12,335	12,334
Banxico Auctions (c)	934	-
Call Money (d)	160	-
Restricted cash and cash equivalents (e)	-	67
Other restricted cash and cash equivalents (f)	5,744	400
	$ 19,870	$ 13,747

a. Deposits in domestic and foreign banks

As at December 31, 2019 and 2018, the balances of these deposits are summarized as shown below:

		2019		2018	
Currency	Features	Foreign currency (thousands)	Mexican pesos	Foreign currency (thousands)	Local Currency
Mexican pesos	Checking accounts	-	$ 5	-	$ 41
US dollars	Checking accounts	24,377	460	33,480	658
Japanese yen	Checking accounts	14,464	3	14,500	3
Euros	Checking accounts	10,786	228	10,846	243
			$ 696		$ 945

b. Deposit in Banxico

Banxico sets forth the obligation for credit institutions to create a monetary regulation deposit, which is determined based on the Deposit funding in Mexican pesos of each Institution. This deposit lacks a term and accrues interest payable every 27, 28, 29 or 30 days at the Target Rate published by Banxico.

At December 31, 2019 and 2018, the balance of the monetary regulation deposit maintained by Banobras in Banxico amounts to $12,335 and $12,334, respectively. The target rate at those rates was 7.27% and 8.28%, respectively.

c. Banxico Auctions

At December 31, 2019, the balances of Banxico Auctions amount to $934, at a 2-day term and a 7.25% rate.

d. Call Money

At December 31, 2019, operations of Call Money executed amount to $160, at a 2-day term and a 7.25% rate.

e. Restricted cash and cash equivalents

At December 31, 2019, there were no restricted cash and cash equivalents, whereas they are comprised of setoff of foreign currency receivables and deliverables, as follows:

		2018	
Currency	Features	Foreign currency (thousands)	Mexican pesos
USD	Foreign currency bought at 48 hours	5,000	$ 98
USD	Foreign currency sold at 48 hours	(5,000)	(98)
Euros	Foreign currency bought at 96 hours	2,974	67
		2,974	$ 67

At December 31, 2019 and 2018, interest earned on cash and cash equivalents amounts to $1,037 and $981, respectively (Note 26).

f. Other restricted cash and cash equivalents

At December 31, 2019 and 2018, other restricted cash and cash equivalents are summarized as follows

	2019	2018
Investments on increase in the Maximum Obligation (MX FRS D-3)	-	$ 400
Deposit in the Federal Treasury (1)	$ 5,744	-
	$ 5,744	$ 400

(1) Characteristics of the deposit in the Federal Treasury:

	Mexican pesos				
Currency	Subscribed	Interest	Total	Rate	Term
Mexican pesos	$ 5,743	$ 1	$ 5,744	7.48%	Indefinite

7. Investments in securities

At December 31, 2019 and 2018, investments in securities are summarized as follows:

a. Trading securities

	2019				2018			
	Cost of acquisition	Interest	Gain (loss) on valuation	Fair value	Cost of acquisition	Interest	Gain (loss) on valuation	Fair value
Unrestricted securities								
CETES	$ 23	-	-	$ 23	-	-	-	-
BONDES	3,608	$ 11	$ 2	3,621	$ 3,468	$ 14	$ 7	$ 3,489
Securities exchange certificate	4,154	6	-	4,160	152	1	-	153
Mutual funds	496	-	-	496	47	-	-	47
	8,281	17	2	8,300	3,667	15	7	3,689
Restricted securities								
CETES	2,092	5	-	2,097	6,000	104	(1)	6,103
Fixed rate bonds	-	-	-	-	659	3	(40)	622
BONDES	231,937	708	342	232,987	205,305	637	250	206,192
Securities exchange certificate	13,094	38	38	13,170	10,768	28	(35)	10,761
UDIBONOS	-	-	-	-	3,854	8	(103)	3,759
Securities exchange certificates (GF)	5,839	78	(86)	5,831	7,513	85	(367)	7,231
Certificates of deposit	708	3	-	711	1,512	7	(1)	1,518
BPAS	65,118	1,505	(63)	66,560	65,233	1,593	(241)	66,585
BPAGT	28,696	357	62	29,115	20,257	261	(5)	20,513
BPAG	3,105	9	-	3,114	9,159	16	(8)	9,167
	350,589	2,703	293	353,585	330,260	2,742	(551)	332,451
	$ 358,870	$ 2,720	$ 295	$ 361,885	$ 333,927	$ 2,757	$ (544)	$ 336,140

Restricted securities at December 31, 2019 correspond to collateral furnished in repurchase agreements repos in the amount of $350,657, and collateral furnished in derivatives trading amounting to $2,928, whereas the amount of $332,451 corresponds to collateral furnished in repurchase agreements repos for 2018.

b. Available-for-sale securities

	2019				2018			
Unrestricted securities	Acquisition cost	Interest	Valuation	Fair value	Acquisition cost	Interest	Valuation	Fair value
Federal Government Bonds (USD)	-	-	-	-	$ 824	$ 15	$ (89)	$ 750
Federal Government Bonds (USD) (1)	$ 1,884	$ 33	$ 183	$ 2,100	1,138	20	(123)	1,035
EUROBONDS (USD)	-	-	-	-	-	-	-	-
EUROBONDS (USD) (1)	1,549	16	59	1,624	1,611	16	(163)	1,464
Securities exchange certificates (GF) (1)	5,663	189	214	6,066	4,948	178	(276)	4,850
Private securities exchange certificates (1)	1,407	13	45	1,465	902	13	(39)	876
Deposit certificates	-	-	-	-	300	2	-	302
State and Municipal Securities Exchange Certificate (1)	2,361	14	115	2,490	2,018	12	(51)	1,979
State and Municipal Securities Exchange Certificate (1)	400	9	29	438	-	-	-	-
Foreign issued debt securities (1)	185	1	9	195	181	1	(1)	181
	$ 13,449	$ 275	$ 654	$ 14,378	$ 11,922	$ 257	$ (742)	$ 11,437

(1) Investments subject to being hedged with derivative financial instruments. At December 31, 2019 and 2018, the effects of valuation are presented as follows:

	2019	2018
Valuation of available-for-sale securities	$ 654	$ (742)
Gain or loss on valuation attributable to the hedged risk (1)	(1,550)	(217)
Others	(4)	(4)
Gain or loss on valuation of available-for-sale securities (Earned capital)	$ (900)	$ (963)

(1) Recognized in the caption of Intermediation income.

c. Held-to-maturity securities

At December 31, 2019 and 2018, held-to-maturity securities are summarized as follows:

Unrestricted securities	Due date	2019	2018
Special 20 year Cetes (a)	January 2019	-	$ 5,886
Stock certificates	May 2019 and March 2020	$ 7,486	5,559
Private Securities Exchange Certificates	May 2020	2,934	2,565
Certificates of Deposit	March 2019 and February 2020	1,608	2,313
Federal Government Securities Exchange Certificates	October 2019 and November 2020	1,808	1,596
		13,836	17,919
Restricted securities:			
Federal Government Securities Exchange Certificates	November 2021	147	145
		$ 13,983	$ 18,064

(a) Special government securities that bear interest at the equilibrium interbank interest rate (EIIR) and obtained by the Institution on the restructuring or capitalization of loans previously granted.

At December 31, 2019 and 2018, uncollected accrued interest on held-to-maturity securities amounts to $53 and $90, respectively.

At December 31, 2019 and 2018, interest earned on investments in securities amounts to $30,848 and $28,472, respectively (Note 26).

8. Repos trading

a. Summary

At December 31, 2019 and 2018, current repurchase agreements repos are summarized below:

	2019		2018	
Debtors under security repurchase agreements	Receivables and collateral under security repurchase agreements	Payables under security repurchase agreements	Receivables and collateral under security repurchase agreements	Payables under security repurchase agreements
CETES	$ 300	$ 2,097	$ 500	$ 6,104
Fixed rate bonds	10,011	-	150	662
BPAS	899	66,622	3,872	66,826
BPAG28	2,454	3,114	178	9,174
BPAG91	11,847	29,053	-	20,518
CEBIC	500	-	500	-
Securities exchange certificates (GF)	-	6,064	-	7,743
Securities exchange certificate	-	13,132	-	10,796
Deposit certificates	-	712	-	1,519
BONDES (Federal Government Development Bonds)	11,090	229,719	1,000	205,942
UDIBONOS	250	-	-	3,862
	37,351	$ 350,513	6,200	$ 333,146
Less:				
Collateral securities sold or pledged (1)				
Fixed rate bonds	10,011		150	
CEBIC	500		500	
CETES	-		290	
BPAG91	11,000		-	
BONDES	8,640		1,000	
BPAS	899		3,872	
BPAG28	2,301		178	
UDIBONOS	250		-	
	33,601		5,990	
Debtors under security repurchase agreements	$ 3,750		$ 210	

(1) At December 31, 2019 and 2018, the effect of valuation of collateral sold or pledged amounts to $30, and $(7), respectively.

Collateral received by the Institution, as well as pledged collateral or delivered by the Institution are presented in memorandum accounts (Note 31).

b. Interest on repurchase agreements repos

At December 31, 2019 and 2018, accrued interest earned in repurchase transactions repos amounts to \$4,831 and \$1,618, respectively, whereas interest payable in repurchase transactions repos amounts to \$32,420 and \$26,847, respectively (Note 26).

c. Terms and instruments

The average term of repurchase transactions repos at December 31, 2019 and 2018 ranges between 1 and 39 days, and the main instruments are as follows:

- Federal Treasury Certificate (CETES, for its acronym in Spanish)
- Savings Protection Bonds (BPAS, for its acronym in Spanish)
- Federal Government Development Bonds (BONDES, for its acronym in Spanish)
- Securities Exchange Certificates (CEBURES, for its acronym in Spanish)
- Segregable Highway Indemnification Securities Exchange Certificates (CEBICS, for its acronym in Spanish)
- Fixed Rate Bonds (FR Bond, for its acronym in Spanish)
- Promissory notes with liquid yield at maturity (PRLVs, for its acronym in Spanish)
- Savings Protection Bonds with a monthly interest payment and additional benchmark interest rate (BPAG, for its acronym in Spanish)
- Savings Protection Bonds with a Quarterly interest payment and benchmark interest rate (BPAGT)
- Certificates of deposit (CEDES, for its acronym in Spanish)
- Federal Government Development Bonds denominated in Investment Units (UDIBONOS, for its acronym in Spanish)

9. Derivatives and hedge trading

At December 31, 2019 and 2018, current derivative financial instruments trading is shown below:

	2019				
	Amount		Presentation		
	Assets	Liabilities	Assets	Liabilities	Net
For trading purposes					
Trading swaps:					
U.S. dollar/Peso	\$ 1,572	\$ 1,052	\$ 520	-	\$ 520
Peso/U.S. dollar	5,379	7,477	-	\$ 2,098	(2,098)
U.S. dollar/Peso	10,610	10,055	2,124	1,569	555
UDIS/Peso	2,591	1,370	1,221	-	1,221
Peso/UDIS	1,370	2,588	-	1,218	(1,218)
YEN/Peso	9,008	1,269	7,739	-	7,739
Interest rates	29,921	29,535	3,188	2,802	386
Total trading securities	60,451	53,346	14,792	7,687	7,105
For hedging purposes:					
Fair value hedge swaps:					
UDIS/Peso	13,420	9,137	4,310	27	4,283
Peso/UDIS	11,134	13,687	-	2,553	(2,553)
U.S. dollar/Peso	2,924	2,184	740	-	740
Peso/U.S. dollar	4,283	5,048	3	768	(765)
Interest rates	68,294	69,612	2,528	3,846	(1,318)
	100,055	99,668	7,581	7,194	387
Cash flow hedge swaps:					
Peso/Peso	366	355	11	-	11
U.S. dollar/Peso	1,311	963	353	5	348
	1,677	1,318	364	5	359
Forward contracts designated as fair value hedges					
Euro/Peso	179	229	-	50	(50)
	179	229	-	50	(50)
Total derivatives designated as hedges	101,911	101,215	7,945	7,249	696
	\$ 162,362	\$ 154,561	\$ 22,737	\$ 14,936	\$ 7,801

	2018				
	Amount		Presentation		
	Assets	Liabilities	Assets	Liabilities	Net
For trading purposes					
Trading swaps:					
U.S. dollar/Peso	$ 1,791	$ 1,077	$ 714	-	$ 714
Peso/U.S. dollar	5,005	8,040	-	$ 3,035	(3,035)
U.S. dollar/U.S. dollar	13,075	12,501	1,477	903	574
UDIS/Peso	2,776	1,539	1,237	-	1,237
Peso/UDIS	1,539	2,771	-	1,232	(1,232)
YEN/Peso	9,627	2,294	7,333	-	7,333
Interest rates	33,513	33,241	2,141	1,869	272
	67,326	61,463	12,902	7,039	5,863
Forward contracts designated as hedges					
Purchases:					
U.S. dollar/Peso	1,526	1,574	-	48	(48)
Euro/Peso	446	490	-	44	(44)
	1,972	2,064	-	92	(92)
Sales:					
Peso/U.S. dollar	1,576	1,526	50	-	50
Peso/Euro	456	446	10	-	10
	2,032	1,972	60	-	60
Total trading securities	71,330	65,499	12,962	7,131	5,831
For hedging purposes:					
Fair value hedge swaps:					
UDIS/Peso	8,843	5,460	3,407	24	3,383
Peso/UDIS	10,378	11,913	-	1,535	(1,535)
U.S. dollar/Peso	3,217	2,315	902	-	902
Peso/U.S. dollar	3,202	3,778	-	576	(576)
Interest rates	74,211	69,249	7,226	2,264	4,962
	99,851	92,715	11,535	4,399	7,136
Cash flow hedge swaps:					
Peso/Peso	390	381	9	-	9
U.S. dollar/Peso	1,390	901	489	-	489
	1,780	1,282	498	-	498
Forward contracts designated as fair value hedges					
Euro/Peso	190	208	-	18	(18)
	190	208	-	18	(18)
Total derivatives designated as hedges	101,821	94,205	12,033	4,417	7,616
	$ 173,151	$ 159,704	$ 24,995	$ 11,548	$ 13,447

The valuation effect of derivative financial trading, as well as hedged items are recognized in the caption of Intermediation income. At December 31, 2019 and 2018, this effect represented an unrealized gain amounting to $1,436 and unrealized loss amounting to $212, respectively (Note 27). At December 31, 2019 and 2018, hedges maintain efficiency between 80% and 125% required by the accounting criteria of the CNBV.

At December 31, 2019 and 2018, the notional amount, accrued interest, and valuation effect of the position of derivative financial instruments for trading purposes and designated as hedges are summarized as follows:

	2019			
	Notional amount	Interest	Valuation	Fair value
Swaps for trading purposes:				
Swaps U.S. dollar/Peso				
Asset-U.S. dollar	$ 1,350	-	$ 222	$ 1,572
Liability – Peso	924	-	128	1,052
	426	-	94	520
Swaps Peso/U.S. dollar				
Asset – Peso	5,356	$ 42	(19)	5,379
Liability - U.S. dollar	7,127	53	297	7,477
	(1,771)	(11)	(316)	(2,098)
Swaps U.S. dollar/U.S. dollar				
Asset – U.S. dollar	8	144	10,458	10,610
Liability - U.S. dollar	8	134	9,913	10,055
	-	10	545	555
Swaps UDIS/Peso				
Assets – UDIS	2,386	12	193	2,591
Liability – Peso	1,370	-	-	1,370
	1,016	12	193	1,221
Swaps Peso/UDIS				
Asset – Peso	1,370	-	-	1,370
Liability - UDIS	2,386	12	190	2,588
	(1,016)	(12)	(190)	(1,218)
Swaps YEN/Peso **(1)**				
Assets – YEN	6,424	1	2,583	9,008
Liability – Peso	384	2	883	1,269
	6,040	(1)	1,700	7,739
Interest rate swaps				
Assets	214	933	28,774	29,921
Liabilities	214	916	28,405	29,535
	-	17	369	386
Total swaps for trading purposes	4,695	15	2,395	7,105
Net position for trading purposes	4,695	15	2,395	7,105
Fair value hedge:				
Swaps UDIS/Peso				
Assets – UDIS	11,593	1,630	197	13,420
Liability – Peso	9,216	25	(104)	9,137
	2,377	1,605	301	4,283
Swaps Peso/UDIS				
Asset – Peso	10,472	23	639	11,134
Liability - UDIS	12,309	91	1,287	13,687
	(1,837)	(68)	(648)	(2,553)
Swaps U.S. dollar/Peso				
Asset – U.S. dollar	2,960	8	(44)	2,924
Liability – Peso	2,285	4	(105)	2,184
	675	4	61	740
Swaps Peso/U.S. dollar				
Asset – Peso	3,530	11	742	4,283
Liability - Peso U.S. dollar	3,433	51	1,564	5,048
	97	(40)	(822)	(765)
Interest rate swap				
Asset – Peso	37,370	1,416	29,508	68,294
Liability – Peso	37,370	867	31,375	69,612
	-	549	(1,867)	(1,318)
Total fair value hedge	1,312	2,050	(2,975)	387
Cash flow hedge:				
Interest rate swaps				
Asset - Peso	335	7	24	366
Liability - Peso	332	-	23	355
	3	7	1	11
Interest rate swaps				
Asset – U.S. dollar	1,292	2	17	1,311
Liability - Peso	934	15	14	963
	358	(13)	3	348
Total cash flow hedges	361	(6)	4	359
Forward contracts (fair value hedge):				
Asset – Euro	178	-	1	179
Liability – Peso	236	-	(7)	229
	(58)	-	8	(50)
Net position designated as a hedge	$ 1,615	$ 2,044	$ (2,963)	$ 696

	2018			
	Notional amount	Interest	Valuation	Fair value
Swaps for trading purposes:				
Swaps U.S. dollar/Peso				
Asset-U.S. dollar	$ 1,551	$ 1	$ 239	$ 1,791
Liability – Peso	1,020	-	57	1,077
	531	1	182	714
Swaps Mexican peso/U.S. dollar				
Asset – Mexican peso	5,452	41	(488)	5,005
Liability - U.S. dollar	7,570	61	409	8,040
	(2,118)	(20)	(897)	(3,035)
Swaps U.S. dollar/U.S. dollar				
Asset – U.S. dollar	10	160	12,905	13,075
Liability - U.S. dollar	9	151	12,341	12,501
	1	9	564	574
Swaps UDIS/Peso				
Assets – UDIS	2,608	14	154	2,776
Liability – Peso	1,539	-	-	1,539
	1,069	14	154	1,237
Swaps Peso/UDIS				
Asset – Peso	1,539	-	-	1,539
Liability - UDIS	2,608	13	150	2,771
	(1,069)	(13)	(150)	(1,232)
Swaps Japanese Yen/Peso **(1)**				
Assets – Japanese Yen	6,625	3	2,999	9,627
Liability – Peso	384	2	1,908	2,294
	6,241	1	1,091	7,333
Interest rate swaps				
Assets	201	842	32,470	33,513
Liabilities	201	826	32,214	33,241
	-	16	256	272
Total swaps for trading purposes	4,655	8	1,200	5,863
Forward contracts for trading purposes				
Purchases:				
Asset – U.S. dollar	1,547	-	(21)	1,526
Liability – Peso	1,644	-	(70)	1,574
	(97)	-	49	(48)
Asset – Euro	446	-	-	446
Liability – Peso	503	-	(13)	490
	(57)	-	13	(44)
Sales:				
Asset – Peso	1,646	-	(70)	1,576
Liability - U.S. dollar	1,547	-	(21)	1,526
	99	-	(49)	50
Asset – Peso	468	-	(12)	456
Liability – Euro	446	-	-	446
	22	-	(12)	10
Total forward contracts for trading purposes	(33)	-	1	(32)
Net position for trading purposes	4,622	8	1,201	5,831
Fair value hedge:				
Swaps UDIS/Peso				
Assets – UDIS	7,655	1,456	(268)	8,843
Liability – Peso	5,556	31	(127)	5,460
	2,099	1,425	(141)	3,383
Swaps Peso/UDIS				
Asset – Peso	9,912	25	441	10,378
Liability - UDIS	11,475	97	341	11,913
	(1,563)	(72)	100	(1,535)
Swaps U.S. dollar/Peso				
Asset – U.S. dollar	3,274	10	(67)	3,217
Liability – Peso	2,448	4	(137)	2,315
	826	6	70	902
Swaps Peso/U.S. dollar				
Asset – Peso	2,705	7	490	3,202
Liability - Peso U.S. dollar	2,749	38	991	3,778
	(44)	(31)	(501)	(576)
Interest rate swap				
Asset – Peso	41,255	1,694	31,262	74,211
Liability – Peso	41,255	778	27,216	69,249
	-	916	4,046	4,962
Total fair value hedge	1,318	2,244	3,574	7,136
Cash flow hedge:				
Interest rate swaps				
Asset - Peso	380	7	3	390
Liability - Peso	378	-	3	381
	2	7	-	9
Interest rate swaps				
Asset – U.S. dollar	1,354	3	33	1,390
Liability - Peso	917	16	(32)	901
	437	(13)	65	489
Total cash flow hedges	439	(6)	65	498
Forward contracts (fair value hedge):				
Asset - Euro	189	-	1	190
Liability – Peso	236	-	(28)	208
	(47)	-	29	(18)
Net position designated as a hedge	$ 1,710	$ 2,238	$ 3,668	$ 7,616

AT December 31, 2019 and 2018, there are cash backed guarantees in connection with derivative financial trading in the amount of $5,381 and $786, respectively (Note 13). Moreover, cash backed guarantees were received in the amount of $2,707 and $5,862, respectively, which are reported in the caption of collateral payable received in cash.

At December 31, 2019, there are guarantees delivered in debt instruments amounting to $2,928 (Note 7-a), which are reported in the caption of investments in securities, whereas the Institution did not furnish guarantees in debt instruments at December 31, 2018.

At December 31, 2019 and 2018, there are guarantees received in debt instruments amounting to $29 and $1,623, respectively, which are reported in the caption of property in custody or in administration (Note 30).

Derivative financial instruments trading carried out by the Bank are conducive to liquidity, market, credit, and legal risks. Internal control policies and procedures for managing risks inherent to derivative financial instruments trading are described in Note 33.

(1) **Interest rate swap and Japanese Yen for Mexican pesos swaps**

At December 31, 2019, this extinguishing amortizing cross currency swap operation reports a net valuation amounting to $7,739 ($7,333 in December 2018), in conformity with the internal valuation model authorized by the Comprehensive Risk Management Committee of Banobras.

This financial derivative instrument includes a clause of early extinction of rights and obligations linked to the possibility of nonperformance with regard to the external debt of the Federal Government, whose valuation at December 31, 2019 and 2018 meant an unrealized loss amounting to $903 and $1,927, respectively with a 0.00250246040667972% and 0.005004617890130930% probability of nonperformance.

Beginning June 2018, it forms part of the operations for trading purposes portfolio, upon revoking the allocation of the hedge of the Japanese Yen bond issue, which mean the recognition of a deferred credit (valuation of the hedged item) that will be amortized in income in the remaining term of the issue of the bonds referred to above (December, 2033).

10. Valuation adjustment on hedges of financial assets

The Institution maintains loan portfolios that form part of the fair value hedge ratio for interest rate risks. At December 31, 2019 and 2018, the effect of valuation (credit balance) attributable to the hedged risk of the loan portfolio amounts to $486 and $555, respectively. At those same dates, the positions in derivatives that hedge those portfolios have an aggregate notional amounting to $32,615 and $32,662, respectively.

11. Loan portfolio

a. Summary of the performing and past-due loan portfolio by type of loan

At December 31, 2019 and 2018, the loan portfolio is summarized as follows:

	2019			
	Principal	Interest	Valuation (1)	Total
Current loan portfolio				
Commercial credits				
Business or commercial activity	$ 131,829	$ 1,279	$ 2,509	$ 135,617
Financial entities	27,704	407	-	28,111
Governmental entities	280,498	760	(213)	281,045
Housing credit	1	-	-	1
Medium class and residential	106	-	-	106
Loans granted as an Agent of the Federal Government	497	1	-	498
Total current loan portfolio	440,635	2,447	2,296	445,378
Past-due loan portfolio				
Commercial credits				
Business or commercial activity	2,393	23	-	2,416
Consumer credit	9		-	9
Housing credit	-	-	-	-
Medium class and residential	47	1	-	48
Total past-due loan portfolio	2,449	24	-	2,473
Total loan portfolio	$ 443,084	$ 2,471	$ 2,296	$ 447,851

	2018			
	Principal	Interest	Valuation (1)	Total
Current loan portfolio				
Commercial credits				
Business or commercial activity	$ 124,545	$ 1,127	$ (2,415)	$ 123,257
Financial entities	27,714	252	-	27,966
Governmental entities	282,757	841	(4,348)	279,250
Housing credit				
Medium class and residential	80	-	-	80
Loans granted as an Agent of the Federal Government	579	2	-	581
Total current loan portfolio	435,675	2,222	(6,763)	431,134
Past-due loan portfolio				
Commercial credits				
Business or commercial activity	2,273	28	-	2,301
Consumer credit	9	-	-	9
Housing credit				
Medium class and residential	40	1	-	41
Total past-due loan portfolio	2,322	29	-	2,351
Total loan portfolio	$ 437,997	$ 2,251	$ (6,763)	$ 433,485

(1) This amount corresponds to the valuation of risks hedged in individual credits that are related to fair value hedges.

For the years ended 2019 and 2018, interest and commissions earned by the Institution for loan portfolio amounted to $41,164 and $36,651, respectively (Note 26).

b. Summary of the portfolio by currency

At December 31, 2019 and 2018, the analysis of the loan portfolio by currency is as follows:

	2019			
	Mexican pesos	Foreign currency translated into Mexican pesos	UDIS translated into Mexican pesos	Total
Current loan portfolio:				
Commercial credits				
Business or commercial activity	$ 100,861	$ 28,175	$ 4,072	$ 133,108
Financial entities	23,199	4,912	-	28,111
Governmental entities	276,362	-	4,896	281,258
Consumer credit	1	-	-	1
Housing credit				
Medium class and residential	106	-	-	106
Loans granted as an Agent of the Federal Government	-	498	-	498
	400,529	33,585	8,968	443,082
Valuation of hedged items				
Commercial credits				
Business or commercial activity	2,182	-	327	2,509
Governmental entities	(277)	-	64	(213)
Total valuation of hedged items	1,905	-	391	2,296
	402,434	33,585	9,359	445,378
Past-due portfolio				
Commercial credits				
Business or commercial activity	372	2,044	-	2,416
Consumer credit	9	-	-	9
Housing credit				
Medium class and residential	48	-	-	48
	429	2,044	-	2,473
Total loan portfolio	$ 402,863	$ 35,629	$ 9,359	$ 447,851

	2018			
	Mexican pesos	Foreign currency translated into Mexican pesos	UDIS translated into Mexican pesos	Total
Current loan portfolio:				
Commercial credits				
Business or commercial activity	$ 91,772	$ 29,938	$ 3,962	$ 125,672
Financial entities	22,868	5,098	-	27,966
Governmental entities	278,445	-	5,153	283,598
Housing credit				
Medium class and residential	80	-	-	80
Loans granted as an Agent of the Federal Government	-	581	-	581
	393,165	35,617	9,115	437,897
Valuation of hedged items				
Commercial credits				
Business or commercial activity	(2,461)	-	46	(2,415)
Governmental entities	(4,204)	-	(144)	(4,348)
Total valuation of hedged items	(6,665)	-	(98)	(6,763)
	386,500	35,617	9,017	431,134
Past-due portfolio				
Commercial credits				
Business or commercial activity	152	2,149	-	2,301
Consumer credit	9	-	-	9
Housing credit				
Medium class and residential	41	-	-	41
	202	2,149	-	2,351
Total loan portfolio	$ 386,702	$ 37,766	$ 9,017	$ 433,485

c. Risk concentration analysis

i. Financing that constitutes a common risk

In conformity with Article 54 of the General Provisions Applicable to Credit Institutions, credits granted to the same person or group of persons who, for representing a common risk, are considered a single risk must be adjusted to the maximum limit resulting from applying the table shown.

Limit on percentage on basic capital	Level of capitalization
12%	From more than 8% and up to 9 %
15%	From more than 9% and up to 10%
25%	From more than 10% and up to 12%
30%	From more than 12% and up to 15%
40%	More than 15%

Financing that has unconditional, irrevocable guarantees that cover the principal and accessories executed by a foreign institution or financial entity that have a minimum investment rating, among other things, can exceed the maximum limit applicable to the entity involved, but under no circumstances can they represent more than 100% of the basic capital of the Institution for each person or group of persons who comprise a common risk.

At December 31, 2019 and 2018, the Institution complies with the limits described above.

ii. Main financing for own account[1]

The summation of the financing granted to the 3 major debtors, that loaned exclusively to full service banking institutions and those drawn down by entities and agencies belonging to the State-Owned Federal Public Administration, including public trusts, cannot exceed 100% of the basic capital of the Institution.

At December 31, 2019 and 2018, the maximum amount of financing payable by the 3 main borrowers subject to 100% of capital amounted to $25,372[2] and $52,645, respectively, which represented 0.4 and 1.0 times the basic capital of the Institution, as appropriate. By only considering the loans subject to the limit of concentration, at December 31, 2019 and 2018, the maximum amount of financing payable by the 3 main borrowers, whose sum must not exceed 100% of the basic capital, amounted to $31,045 y $26,131, respectively, which represented 50.3% and 51.2% of the basic capital, as appropriate.

At December 31, 2019, the Institution maintains loans granted in the amount of $307,932, which exceed 10% of the basic capital and represent 5.0 times the basic capital, whereas at December 31, 2018, the Institution maintains 23 loans granted in the amount of $285,935 that exceed 10% of the basic capital and represent 5.6 times the basic capital.

At December 31, 2019, the Institution maintains 6 loans subject to the concentration limit that exceed 10% of the basic capital, which amounts to $50,784.3 and represents 0.82 times the basic capital, whereas at December 31, 2018, the Institution maintains 5 loans granted in the amount subject to the limit of concentration that exceed 10% of the basic capital, which amount to $37,531 and represent 0.74 times the basic capital.

[1] In conformity with the provisions of the last paragraph of Article 57 of the General Provisions applicable to Credit Institutions, all references in this section to basic capital or net capital corresponding to the amount at the closing of the third quarter of 2019 (September 2019).

[2] The National Infrastructure Fund with a 100% limit was not considered in this cutoff, in conformity with Article 56, subsection I, since it had an express guarantee from the Federal Government registered in the registry of obligations of the SHCP. In order to have an amount comparable with the amount reported in 2018, the figure would amount to 50 billion 782.1 million Mexican pesos if the FONADIN were considered for this calculation.

iii. By economic, sector

At December 31, 2019 and 2018, the loan portfolio of the Institution, considering the activity of borrowers, is shown below:

	2019		2018	
	Amount	%	Amount	%
Federal Government (1)	$ 54,548	12	$ 55,714	13
State governments, decentralized public agencies and government-owned companies, agencies, and federal entities	214,552	48	199,380	46
Other public financial entities	4,824	1	3,157	1
Full-Service Banking	22,598	5	22,868	5
Other private financial entities	5,513	1	5,098	1
National entities	134,763	30	127,053	29
Individuals	164	-	130	-
Public development funds (1)	7,832	2	25,928	5
Foreign companies	761	1	920	-
	445,555	100	440,248	100
Valuation of hedged items	2,296	-	(6,763)	-
	$ 447,851	100	$ 433,485	100

(1) At December 31, 2019 and 2018, the portfolio payable by the Federal Government, including public development funds in the fiscal year, is summarized as follows:

	2019			2018		
	Principal	Interests	Total	Principal	Interests	Total
Loans granted as an Agent of the Federal Government	$ 497	$ 1	$ 498	$ 579	$ 2	$ 581
Portfolio for its own account	61,702	180	61,882	80,767	294	81,061
	62,199	181	62,380	81,346	296	81,642
Valuation of hedged items	(26)		(26)	(451)	-	(451)
	$ 62,173	$ 181	$ 62,354	$ 80,895	$ 296	$ 81,191

iv. By region

At December 31, 2019 and 2018, the loan portfolio of the Institution, considering the region where its borrowers are located, is as follows:

	2019		2018	
Zone	Amount	Percentage of concentration	Amount	Percentage of concentration
Loan portfolio:				
Qualifiable				
Central	$ 129,323	29%	$ 124,798	28%
North	111,313	25%	100,103	23%
South	137,714	31%	130,548	30%
Exempted:				
Central	54,548	12%	55,713	13%
Reserved 0.5%				
Central	12,657	3%	29,086	6%
	445,555	100%	440,248	100%
Valuation of hedged items	2,296		(6,763)	
	$ 447,851	100%	$ 433,485	100%

d. Analysis of the economic environment (troubled loan portfolio)

The troubled loan portfolio at December 31, 2019 and 2018 is summarized as follows:

	2019			2018		
Commercial credits	Current portfolio	Past- due portfolio	Total	Current portfolio	Past- due portfolio	Total
Business or commercial activity	$ 7,252	$ 2,416	$ 9,668	$ 5,800	$ 2,301	$ 8,101
Governmental entities	38	-	38	57	-	57
Consumer credit	-	9	9	-	9	9
Housing credit						
Medium class and residential	3	48	51	4	41	45
Troubled loan portfolio	7,293	2,473	9,766	5,861	2,351	8,212
Non-troubled loan portfolio	435,789	-	435,789	432,036	-	432,036
Valuation of hedged items	2,296	-	2,296	(6,763)	-	(6,763)
	$ 445,378	$ 2,473	$ 447,851	$ 431,134	$ 2,351	$ 433,485

At December 31, 2019 and 2018, the troubled loan portfolio includes uncollected accrued interest in the amount of $173 and $115, respectively.

e. Restructured loan portfolio

Commercial credits	2019	2018
Business or commercial activity	$ 56,762	$ 49,440
Governmental entities	110,558	116,114
	$ 167,320	$ 165,554

At December 31, 2019 and 2018, restructured and renewed loans are recorded in performing portfolio and they do not have additional guarantees. At those dates, uncollected accrued interest arising from this portfolio amounts to $915 and $912, respectively.

f. Past-due loan portfolio

Aging

At December 31, 2019 and 2018, the past-due loan portfolio in accordance with its age is classified as follows:

	Principal and interest 2019				
Commercial credits	From 1 to 180 days	From 181 to 365 days	From 366 to 2 years	More than 2 years	Total
Business or commercial activity	-	$ 220	$ 257	$ 1,939	$ 2,416
Consumer credit	-	-	-	9	9
Housing credit					
Medium class and residential	$ 8	1	1	38	48
	$ 8	$ 221	$ 258	$ 1,986	$ 2,473

Commercial credits	Principal and interest 2018 From 1 to 180 days	From 181 to 365 days	From 1 to 2 years	More than 2 years	Total
Business or commercial activity	-	$ 288	-	$ 2,013	$ 2,301
Consumer credit	-	-	-	9	9
Housing credit					
Medium class and residential	$ 1	2	$ 1	37	41
	$ 1	$ 290	$ 1	$ 2,059	$ 2,351

Movements

At December 31, 2019 and 2018, the movements presented in the past-due loan portfolio is summarized as follows:

	2019	2018
Opening Balance	$ 2,351	$ 2,297
Increases:		
Reclassification from current to past-due loan portfolio	231	291
Decreases:		
Valuation of foreign currency	86	2
Recoveries	19	9
Reclassification from past-due loan to performing portfolio	4	225
Condonation	-	1
Final balance	$ 2,473	$ 2,351

g. Financial lease

At December 31, 2019 and 2018, transactions have been recorded under the modality of financial leasing, whose outstanding balance amounts to $30,345 and $32,280, respectively.

The Institution enters into financial lease agreements in which it is bound to acquire and assign its use to the lessor, subject matter of the lease in conformity with each agreement.

At December 31, 2019 and 2018, advances have been made that form part of the loan portfolio, which are allocated to the payment of the percentage of completion of the equipment under a lease agreement that are delivered in installments. Unleased assets and formalized commitments related to their acquisition have been recognized as follows:

	2019	2018
Loan portfolio (advances)	$ 30,275	$ 32,196
Unleased financial assets	323	366
Formalized commitments	345	431

At December 31, 2019 and 2018, the Institution did not enter into financial lease agreements.

12. Allowance for loan losses

At December 31, 2019 and 2018, as a result of the rating of the total ratable portfolio, the amount of the allowance for loan losses is summarized as follows:

	2019	2018
Commercial credits (a)		
Business or commercial activity (a.1)	$ 5,070	$ 4,940
Financial entities (a.2)	358	497
Governmental entities (a.3)	1,794	1,715
Consumer credit (b)	9	9
Housing credit		
Medium class and residential (c)	32	30
	7,263	7,191
For guarantees and contingent lines of credit	700	438
For additional reserves:		
Recognized by the CNBV (e)	3,027	3,101
For past-due interest	-	2
	$ 10,990	$ 10,732

At December 31, 2019 and 2018, the loan portfolio risk rating is presented below:

a. Commercial credits

a.1 Business or commercial activity

	2019		2018	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1	$ 113,546	$ 570	$ 104,932	$ 533
A-2	-	-	215	3
B-1	12,309	185	1,396	23
B-3	-	-	11,124	351
C-1	-	-	2,232	166
C-2	4,856	643	3,040	321
D	321	126	490	211
E	4,492	3,546	4,570	3,332
Total	$ 135,524	$ 5,070	$ 127,999	$ 4,940

a.2 Financial entities

	2019		2018	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1	$ 16,862	$ 74	$ 16,269	$ 119
A-2	-	-	6,599	93
B-1	6,337	118	-	-
B-3	4,912	166	-	-
C-1	-	-	5,098	285
Total	$ 28,111	$ 358	$ 27,966	$ 497

a.3 Governmental entities

	2019		2018	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1	$ 143,217	$ 608	$ 183,000	$ 762
A-2	63,180	626	14,216	154
B-1	7,443	112	18,121	289
B-2	531	8	2,322	38
B-3	10,717	345	6,158	187
C-1	2,095	89	4,614	277
C-2	10	1	22	2
D	28	5	35	6
Total	$ 227,221	$ 1,794	$ 228,488	$ 1,715

At December 31, 2019 and 2018, the balance of the allowance for loan losses for Governmental Entities in the A-1 risk rating includes the reserve payable by the Federal Government at 0.5% for $63 and $146, respectively.

At December 31, 2019 and 2018, that reserve at 0.5% amounts to $33,056 and $31,479, respectively. That amount includes the loan portfolio, net of unaccrued interest and contingent lines.

b. Consumer credit

	2019		2018	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1(*)	$ 1	-	-	-
A-2(*)	-	-	-	-
B-1(*)	-	-	-	-
B-2(*)	-	-	-	-
B-3(*)	-	-	-	-
C-1(*)	-	-	-	-
E	9	$ 9	$ 9	$ 9
Total	$ 10	$ 9	$ 9	$ 9

(1) Amounts lower than one million Mexican pesos

c. Medium class and residential

	2019		2018	
Degree of risk	Exposure	Expected loss	Exposure	Expected loss
A-1(*)	$ 78	-	$ 71	-
A-2(*)	9	-	-	-
B-1(*)	1	-	-	-
B-2(*)	12	-	4	-
B-3(*)	3	-	-	-
C-1(*)	1	-	-	-
C-2	12	$ 1	11	$ 1
D	11	4	6	1
E	27	27	29	28
Total	$ 154	$ 32	$ 121	$ 30

(1) Amounts lower than one million Mexican pesos

d. Guarantees and contingent lines of credit

	2019		2018	
Degree of risk	Exposure	Expected Loss	Exposure	Expected Loss
A-1	$ 66,697	$ 296	$ 68,375	$ 345
A-2	19,543	217	6,624	79
B-1	11,254	180	303	6
B-2	133	3	-	-
B-3	58	2	63	2
C-1	36	2	92	6
Total	$ 97,721	$ 700	$ 75,457	$ 438

e. At December 31, 2019 and 2018, the balance of additional reserves recognized by the CNBV are summarized as follows:

	2019	2018
State and municipal governments (global)	$ 586	$ 649
Companies (business activity) (a)	2,441	2,452
	$ 3,027	$ 3,101

At December 31, 2019, the balance of the portfolio payable by the Federal Government exempted and reserved at 0.5% amounts to $54,548 and $33,056, respectively, whereas the amounts of $55,713 and $31,479, respectively, were recorded in 2018.

The universe of the total rated portfolio at December 31, 2019 and 2018 amounted to $488,741 and $460,040, respectively, which includes the commercial portfolio, the reserved Federal Government portfolio reserved at 0.5%, the contingent portfolio, and the guarantees furnished with their induced credit, as well as consumer and housing credit.

At December 31, 2019 and 2018, the universe of the rated portfolio is summarized as follows:

Rated loan portfolio:	2019	2018
Balance Sheet:		
Portfolio	$ 445,555	$ 440,248
Valuation of the hedged item	2,296	(6,763)
Total portfolio balance sheet	447,851	433,485
Accrued interest from financial leasing	13	23
Interest collected in advance	-	25
Memorandum accounts	97,721	75,457
	545,585	508,990
Interest collected in advance	(54,548)	(55,713)
Valuation of the hedged item	(2,296)	6763
	(56,844)	(48,950)
Rated portfolio	$ 488,741	$ 460,040

At December 31, 2019 and 2018, the movements of the Allowance for loan losses are presented below:

	2019	2018
Opening Balance	$ 10,732	$ 10,267
Allowance for loan losses	334	125
Additional estimates for the year (1)	733	1199
Release of additional estimates (2)	(809)	(859)
Final balance	$ 10,990	$ 10,732

(1) At December 31, 2019 and 2018, additional reserves were created recognized by the CNBV for risks not foreseen in the rating methodologies of the loan portfolio in the amount of $733 and $1,199, respectively.

(2) At December 31, 2019 and 2018, additional reserves were applied recognized by the CNBV for risks not foreseen in the rating methodologies of the loan portfolio in the amount of $809 and $859, respectively, since the assumptions for which they were created materialized.

For the years ended December 31, 2019 and 2018, the gain or loss on the Allowance for loan losses amounted to $244 and $467, respectively.

Changes in the particular portfolio rating standard

Banobras decided to establish new risk measurements in June 2018, which were approved by the Comprehensive Risk Management Committee and incorporated into the MAIR for creating additional reserves. Those modifications mainly affected the loan portfolio of private sector projects in a construction stage, since the ratio between the months of delay and percentage of completion of the work were not foreseen in the particular standard.

The effect of the change in this particular standard corresponding to fiscal 2018 meant that additional reserves were released in the amount of $338, with a variation of $112 with regard to the amount that had been recognized with the prior particular standard.

13. Other accounts receivable, net

At December 31, 2019 and 2018, the caption of other receivables is summarized as follows:

	2019	2018
VAT loan portfolio operations	$ 4,737	$ 4,986
Employee loans (1)	2,229	2,691
Debtors for collateral granted in cash (2)	5,381	786
Debtors for clearing accounts	3,622	98
Other accounts receivables (3)	283	367
	16,252	8,928
Allowance for uncollectible or doubtful accounts	(92)	(39)
	$ 16,160	$ 8,889
Balance as an Agent of the Supporting Fund Mandate to States and Municipalities (FOAEM) (4)	$ 162	$ 218

(1) At December 31, 2019 and 2018, employees loans are summarized as follows:

Type of loan	2019	2018	Annual rate	Term
Short-term	$ 4	$ 5		Up to 24 months
Medium-term	967	897	4%	Up to 6 years
Mortgage	838	845	4% the first 15 years and 6% the last 5 years	Up to 20 years
Special for savings	412	912	1%	3 to 6 years
Special transportation	10	34		Up to 3 years
Others	(2)	(2)		
	$ 2,229	$ 2,691		

(2) The Institution furnished guarantees for derivative financial trading (swaps), which are determined based on the fair value of the instrument portfolio, and they are restricted with regard to their availability. At December 31, 2019 and 2018, interest earned on these guarantees amounted to $234 and $26, respectively (Note 26).

(3) At December 31, 2019 and 2018, other accounts receivables are summarized as follows:

	2019	2018
Other accounts receivables:		
Tax recoverable balances	$ 77	$ 159
Other debts on derivative financial trading	52	72
Receivables for commissions on current trading activities	81	49
Trust company fees	51	50
Others	22	37
	$ 283	$ 367

(4) At December 31, 2019 and 2018, the balance as a FOAEM mandate agent is summarized as follows:

	2019	2018
Asset balances:		
For own account		
Exchange rate fluctuations	$ 235	$ 297
Others	7	8
Total balances due from the FOAEM	242	305
Liability balances:		
For own account		
Restatement of investment units	70	77
Others	5	5
	75	82
By financial agent		
Restatement of investment units	5	5
	5	5
Total balances due to the FOAEM	80	87
Assets as an agent of the FOAEM mandate	$ 162	$ 218

At December 31, 2019, the asset notional value corresponding to the foreign currency liability of the operations of the FOAEM is equivalent to 29 million USD. The liability notional value relative to the asset in UDIS amounts to 6 million UDIS, whereas at December 31, 2018, the asset notional value corresponding to the foreign currency liabilities is equivalent to 34 million USD, and the liability notional value relative to the asset in UDIS amounts to 7 million UDIS.

14. Property, furniture and equipment (net)

At December 31, 2019 and 2018, this item is summarized as follows:

	2019			2018		
	Asset value	Accumulated depreciation	Rates	Asset value	Accumulated depreciation	Rates
Land	$ 168	-		$ 168	-	
Buildings	468	$ 114	(1)	468	$ 109	(1)
Furniture and office equipment	87	78	10%	94	83	10%
Computer equipment	25	25	30%	39	39	30%
Transportation equipment	12	12	25%	22	22	25%
Adaptations and improvements	52	49	5 and 10%	52	48	5 and 10%
Total fixed assets	812	$ 278		843	$ 301	
	$ 534			$ 542		

(1) These assets are depreciated in accordance with their estimated useful life.

At December 31, 2019 and 2018, depreciation amounts to $8 and $9, respectively.

15. Permanent investments

At December 31, 2019 and 2018, the balance of permanent investments is summarized as follows:

		2019		2018	
	Entity interest	Cost of acquisition	Carrying value	Cost of acquisition	Carrying value
Banco Nacional de Comercio Exterior, S.N.C.	0.0027%	-	$ 1	-	$ 1
Banco Latinoamericano de Exportaciones	0.0370%	-	1	-	1
Corporacion Mexicana de Inversiones de Capital, S.A. de C.V.	6.0000%	$ 68	72	$ 68	72
		$ 68	$ 74	$ 68	$ 74

16. Other assets

At December 31, 2019 and 2018, this item is comprised of the following items:

	2019	2018
Other assets, deferred charges, and intangibles (1)	$ 249	$ 378
Labor obligations (Note 21)	3,732	6,118
Reconciling item	1	(5)
Labor obligations	3,733	6,113
	$ 3,982	$ 6,491

(1) Other assets, deferred charges, and intangibles are presented below:

Item	Balance 2018	Additions	Applications	Balance 2019
Recoverable tax balances (ISR)	$ 316	$ 207	$ 320	$ 203
Service providers and supervision agencies	21	73	90	4
Issue of bonds and securities exchange certificates	41	39	38	42
	$ 378	$ 319	$ 448	$ 249

17. Deposit funding

At December 31, 2019 and 2018, traditional deposits are summarized as follows:

	2019	2018
Time deposit		
Money market (a)	$ 355,136	$ 335,792
Debt securities issued (b)	62,167	49,732
	$ 417,303	$ 385,524

(a) Time deposit - Money market

At December 31, 2019 and 2018, this caption is summarized as follows:

	2019	2018
Promissory notes with liquid yield at maturity (PRLV-Spanish acronym)	$ 297,912	$ 283,092
Certificates of deposit (1)	55,360	50,042
Time deposit in U.S. dollars	1,864	2,658
	$ 355,136	$ 335,792

At December 31, 2019 and 2018, the issue of long-term PRLVs amounts to $9,130 and $8,965, and accrued interest amounts to $6,053 and $4,933, respectively.

(1) At December 31, 2019 and 2018, the Institution has outstanding bank securities in local and foreign currency as follows:

	2019					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Certificates of deposit						
FBANOBRA (iii)	383,488,946	100 MN	$ 37,997	$ 320	$ 137	$ 38,454
FBANOBRAU	17,557,368	100 UDIS	11,235	1,628	241	13,104
FBANOBRAD	2,014,802	100 USD	3,800	2	-	3,802
	403,061,116		$ 53,032	$ 1,950	$ 378	$ 55,360

	2018					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Certificates of deposit						
FBANOBRA (iii)	363,288,946	100 MN	$ 35,926	$ 193	$ (732)	$ 35,387
FBANOBRAU	14,607,165	100 UDIS	9,095	1,476	(199)	10,372
FBANOBRAD	2,177,753	100 USD	4,280	3	-	4,283
	380,073,864		$ 49,301	$ 1,672	$ (931)	$ 50,042

(i) This amount corresponds to the valuation of risks hedged of financial liabilities that are subject to hedges with derivative financial instruments. That valuation is determined by the fair value of the risks hedged in hedging relationships.
(ii) The nominal value of the securities is the price at maturity of the issue for each outstanding security.
(iii) At December 31, 2019 and 2018, the Institution maintains a zero coupon issue. At those same dates, the Institution maintains an issue placed at a discount (Note 2, section r, paragraph six).

The rates and terms of the Time deposit are summarized below:

	2019		2018	
Issue in Mexican pesos:	Interest rate divided by %	Terms divided by days	Interest rate divided by %	Terms divided by days
Securities exchange PRLVs	6.96 and 8.55	1 and 364	7.18 and 9.01	1 and 364
Long-term PRLV	11.50 and 28.75	3,654 and 7,305	11.54 and 35.05	3,689 and 7,305
Certificates of deposit:				
Mexican pesos	6.14 and 14.50	9 and 4,168	4.87 and 14.50	7 and 4,533
UDIS	3.19 and 6.11	135 and 10,823	2.70 and 6.11	37 and 10,766
Foreign currency	1.67 and 2.58	2 and 167	1.30 and 2.52	2 and 24
Deposits in US dollars	0.06 and 2.20	1 and 49	0.06 and 1.60	1 and 50

During fiscal 2019, the Institution did not redeem security, whereas for fiscal 2018, the Institution redeemed 2,847,375,674 long-term PRLV securities (placement of a Municipality, authorized by Bank of Mexico through official letters OFI003--22339 and 22340 of March 8, 2018) and 3,066,196,182 long-term PRLV securities (placement of a Municipality, authorized by Banco de Mexico through official letters OFI003-26000, 26001, 26002, and 26003 of November 29, 2018).

(b) Debt securities issued

At December 31, 2019 and 2018, the Institution has outstanding bank values or securities in local and foreign currency as follows:

	2019					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Securities exchange certificate						
CDBANOB (iii)	519,000,000	100 MN	$ 51,839	$ 470	$ 69	$ 52,378
CDBANOBU	5,233,324	100 UDIS	3,349	9	7	3,365
	524,233,324		55,188	479	76	55,743
Securities outstanding abroad						
JBANOB	37	1,000,000,000 YEN	6,423	1	-	6,424
	524,233,361		$ 61,611	$ 480	$ 76	$ 62,167

	2018					
	Number of titles	Nominal value (ii)	Principal	Interest	Valuation hedged item (i)	Total
Securities exchange certificate						
CDBANOB (iii)	445,000,000	100 MN	$ 44,426	$ 440	$ (2,434)	$ 42,432
CDBANOBU	1,080,233	100 UDIS	672	3	-	675
	446,080,233		45,098	443	(2,434)	43,107
Securities outstanding abroad						
JBANOB (iv)	37	1,000,000,000 YEN	6,625	-	-	6,625
	446,080,270		$ 51,723	$ 443	$ (2,434)	$ 49,732

(i) This amount corresponds to the valuation of risks hedged of financial liabilities that are subject to hedges with derivative financial instruments. That valuation is determined by the fair value of the risks hedged in hedging relationships.
(ii) The nominal value of the securities is the price at maturity of the issue for each outstanding security.
(iii) At December 31, 2019, the Institution maintains an issue of securities placed at a discount. Toward that end, a deferred charge was recognized for the difference between the nominal value and the amount of cash received, which are shown in the liability that gave rise thereto for purposes of presentation. At December 31, 2018, the Institution maintained an issue of securities placed at a discount.
(iv) Interest generated on the issue in Japanese yens are payable semi-annually on June 29 and December 29 every year, at a 3% fixed annual rate for 30 years of validity of the issue.

The rates and terms of the Negotiable instruments are summarized below:

	2019		2019	
Securities exchange certificates:	Interest rate divided by %	Terms divided by days	Interest rate divided by %	Terms divided by days
Mexican pesos	5.16 and 8.49	244 and 3,438	5.16 and 8.35	609 and 2,230
UDIS	2.97 and 3.96	675 and 5,258	2.97	1,040

During fiscal 2019 and 2018, the Institution did not redeem debt securities debt securities issued early.

At December 31, 2019 and 2018, the Institution is authorized by the CNBV to perform preventive registrations of its issues in the securities section of the National Securities Register under the generic modality.

At December 31, 2019 and 2018, the amount of fees and other related expenses that affected income amounted to $37 for both years, whereas the amount redeemed of the discount at those dates is summarized as follows (Note 26):

	2019	2018
Promissory notes with liquid yield at maturity (PRLV-Spanish acronym)	$ 1,120	$ 1,105
Certificates of deposit (CEDES)	50	47
Securities exchange certificates (CEBURES)	13	13
	$ 1,183	$ 1,165

At December 31, 2019 and 2018, interest expenses for deposit funding and the discount for debt placement amounted to $31,680 and $27,674, respectively (Note 26).

18. Interbank loans and from other agencies

At December 31, 2019 and 2018, interbank loans and from other agencies are summarized as follows:

	2019	2018
Immediately due and payable:		
Call Money (a)	$ 1,050	$ 2,363
Short-term:		
Loans from Banxico (b)	9,012	10,018
Loans from Financial Institutions (c)	4,057	5,249
Loans as an Agent of the Federal Government (d)	50	53
Loans for its own account (e)	1,474	1,373
	14,593	16,693
Long-term:		
Loans as an Agent of the Federal Government (d)	447	527
Loans for its own account (e)	18,210	20,193
	18,657	20,720
Valuation of hedged items (1)	(44)	(68)
	18,613	20,652
	$ 34,256	$ 39,708

(1) Some of the financial liabilities of the Institution are subject to foreign exchange rate risk and/or interest rate hedges with derivative financial instruments. The amount on valuation is determined by the fair value of the hedged risks.

(a) Call Money

At December 31, 2019 and 2018, call money received is summarized as follows:

	2019				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 1,000	-	$ 1,000	7.25%	2 days
Mexican pesos	50	-	50	7.20%	2 days
	$ 1,050	-	$ 1,050		

	2018				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 90	-	$ 90	8.25%	2 days
Mexican pesos	2,000	-	2,000	8.25%	2 days
Mexican pesos	63	-	63	8.20%	2 days
Mexican pesos	210	-	210	8.20%	2 days
	$ 2,363	-	$ 2,363		

(b) Loans from Bank of Mexico

At December 31, 2019 and 2018, loans from Banco de Mexico are summarized as follows:

	2019				
	Mexican pesos				
Currency	Principal	Interest	Total	Rate	Term
Mexican pesos	$ 1,500	$ 3	$ 1,503	7.25%	14 days
Mexican pesos	2,000	3	2,003	7.25%	10 days
Mexican pesos	1,000	-	1,000	7.25%	8 days
Mexican pesos	1,500	3	1,503	7.27%	13 days
Mexican pesos	2,000	2	2,002	7.27%	7 days
Mexican pesos	1,000	1	1,001	7.28%	13 days
	$ 9,000	$ 12	$ 9,012		

Currency	2018 Mexican pesos Principal	Interest	Total	Rate	Term
Mexican pesos	$ 2,000	$ 5	$ 2,005	8.13%	14 days
Mexican pesos	4,000	9	4,009	8.20%	12 days
Mexican pesos	1,000	2	1,002	8.35%	15 days
Mexican pesos	1,000	1	1,001	8.28%	14 days
Mexican pesos	2,000	1	2,001	8.36%	11 days
	$ 10,000	$ 18	$ 10,018		

(c) Loans from financial institutions

At December 31, 2019 and 2018, loans from Financial Institutions are summarized as follows:

Short-term

2019						
Currency	Principal foreign currency	Principal Mexican pesos	Interest	Total	Rate	Term
U.S. dollar	55	$ 1,038	-	$ 1,038	1.70%	8 days
U.S. dollar	5	94	-	94	1.71%	8 days
U.S. dollar	20	378	-	378	1.78%	8 days
U.S. dollar	45	849	-	849	1.70%	9 days
U.S. dollar	35	660	-	660	1.78%	9 days
U.S. dollar	45	849	-	849	1.70%	10 days
U.S. dollar	10	189	-	189	1.78%	10 days
	215	$ 4,057	-	$ 4,057		

2018						
Currency	Principal foreign currency	Principal Mexican pesos	Interest	Total	Rate	Term
U.S. dollar	112	$ 2,201	$ 1	$ 2,202	2.52%	8 days
U.S. dollar	55	1,081	-	1,081	2.52%	7 days
U.S. dollar	100	1,965	1	1,966	2.55%	7 days
	267	$ 5,247	$ 2	$ 5,249		

(d) Loans as an Agent of the Federal Government

At December 31, 2019 and 2018, loans as an Agent of the Federal Government are summarized as follows:

Short-term

	Loan number	Term of funding in years	Date of formalization of loan	Principal balance (thousands USD)	Outstanding balance interest (thousands USD)	Total Outstanding balance (thousands USD)	Outstanding balance Mexican pesos 2019	Outstanding balance Mexican pesos 2018	Last applicable rate
Natixis Bank:									
PROTOCOLS (i)	n/a	31	Jan 26,81	2,608	52	2,660	$ 50	$ 53	(*) 1.75%

(*) Average rate.
(i) Contracted in euros which were translated into U.S. Dollars for purposes of presentation.

Long-term

	Loan number	Term of funding in years	Date of formalization of loan	Principal balance (thousands USD)	Outstanding balance on interest (thousands USD)	Total outstanding balance (thousands USD)	Outstanding balance Mexican pesos 2019	2018	Last applicable rate
Natixis Bank:									
PROTOCOLOS (i)	n/a	31	26-Jan-81	23,715	-	23,715	$ 447	$ 527	(*) 1.75%

(*) Average rate.
(i) Contracted in euros which were translated into U.S. Dollars for purposes of presentation.

At December 31, 2019 and 2018, the Institution does not have credits that have not been drawn down as a Financial Agent of the Federal Government.

(e) Loans for its own account

As of December 31, 2019 and 2018, loans for its own account are summarized as follows:

Short-term

	Loan number	Term of funding in years	Date of formalization of loan	Principal balance (thousands USD)	Outstanding interest balance (thousands USD)	Total outstanding balance (thousands USD)	Outstanding balance Mexican pesos 2019	2018	Last applicable rate
(i)	1383-BID	25	Mar 10, 02	3,119	485	3,604	$ 68	$ 69	(*) 9.56%
(i)	2053-BID	25	Sept 09, 09	1,745	446	2,191	41	42	(*) 8.02%
(i)	1744-BID	25	Mar 06, 07	6,608	1,150	7,758	146	149	(*) 7.76%
(i)	7230-BIRF	18	Mar 09, 05	4,303	393	4,696	89	92	(*) 8.66%
(i)	7250-BIRF	15	Nov 21,05	-	-	-	-	11	(*) 8.05%
(ii)	1214-OC-ME-BID	25	Oct 25,99	1,301	45	1,346	26	27	3.85%
(ii)	1383-OC-ME-BID	25	Mar 10, 02	10,253	515	10,768	203	215	(*) 3.39%
(ii)	1744-OC-ME-BID	25	Mar 06, 07	393	47	440	8	9	2.93%
(ii)	2053-BID	25	Sept 09, 07	14,691	2,075	16,766	316	338	3.42%
(ii)	2550-BID	25	Nov 29, 11	14,593	337	14,930	282	295	2.93%
(ii)	3313-BID	25	Dec 10, 14	2,239	1,620	3,859	73	81	3.11%
(ii)	96291-BIRF (iii)	20	July 21, 10	6,202	22	6,224	117	-	0.75%
(ii)	7883-BIRF	13	July 21, 10	4,412	67	4,479	85	43	3.12%
(ii)	8386-BIRF	13	Jun 13, 14	1,021	19	1,040	20	2	2.97%
				70,880	7,221	78,101	$ 1,474	$ 1,373	

(*) Average rate.
(i) Contracted in Mexican pesos.
(ii) Contracted in US dollars.
(iii) Unpaid balance lower than $1.

Long-term

	Loan number	Term of funding in years	Date of formalization of loan	Outstanding balance (thousands USD)	Total outstanding balance (thousands USD)	Unpaid balance Mexican pesos 2019	2018	Last applicable Rate
(i)	1383-BID	25	Mar 10, 02	20,276	20,276	$ 382	$ 441	(*) 9.56%
(i)	2053-BID	25	Sept 09, 09	23,989	23,989	453	485	(*) 8.02%
(i)	1744-BID	25	Mar 06, 07	75,721	75,721	1,428	1,553	(*) 7.76%
(i)	7230-BIRF	18	Mar 09, 05	6,359	6,359	120	201	(*) 8.66%
(ii)	1214-OC-ME-BID	25	Oct 25, 99	5,205	5,205	98	128	3.85%
(ii)	1383-OC-ME-BID	25	Mar 10, 02	66,784	66,784	1,260	1,525	(*) 3.39%
(ii)	1744-OC-ME-BID	25	Mar 06, 07	4,519	4,519	85	97	2.93%
(ii)	2053-BID	25	Sept 09, 07	205,682	205,682	3,880	4,330	3.42%
(ii)	2550-BID	25	Nov 29, 11	231,846	231,846	4,374	4,843	2.93%
(ii)	3313-BID	25	Dec 10, 14	216,421	216,421	4,083	4,297	3.11%
(ii)	96291-BIRF	20	July 21, 10	55,814	55,814	1,053	1,219	0.75%
(ii)	7883-BIRF	13	July 21, 10	41,452	41,452	782	901	3.12%
(ii)	8386-BIRF	13	June 13, 14	11,220	11,220	212	173	2.97%
				965,288	965,288	$ 18,210	$ 20,193	

(*) Average rate.
(i) Contracted in Mexican pesos.
(ii) Contracted in US dollars.

Maturities of long-term loans:

Amortizations of capital of long-term loans in the next six fiscal years are presented below (Mexican pesos):

Year	Amortization
2021	$ 1,330
2022	1,329
2023	1,285
2024	1,294
2025	1,673
2026	1,239
More than 6 years	10,507
	$ 18,657

At December 31, 2019 and 2018, the Institution maintains credit lines contracted that have not been drawn down that amount to $7,130 and $7,508, respectively.

At December 31, 2019 and 2018, there are no proprietary guarantees furnished for financing received.

At December 31, 2019 and 2018, interest expenses on interbank loans amount to $1,520 and $1,456, respectively. (Note 26)

19. Tax on earnings (Income Tax (ISR) and Employee Profit Sharing (PTU))

a. Taxes on earnings

Income tax for the year is determined by applying the 30% corporate rate to the result of reducing authorized deductions and employee profit sharing from cumulative income and, if applicable, prior year tax loss carryforwards.

At December 31, 2019 and 2018, taxes on earnings in the statement of income are summarized as follows:

	2019	2018
Income tax payable	$ 582	$ 788
Deferred Income Tax	(123)	(5)
Taxes on earnings	$ 459	$ 783

At December 31, 2019 and 2018, Income Tax payable was determined as follows:

	2019	2018
Taxable income	$ 82,110	$ 72,449
Authorized deductions	79,881	69,457
Income before deduction of PTU	2,229	2,992
PTU paid in the fiscal year	289	366
Income tax	1,940	2,626
Tax base	1,940	2,626
Tax rate	30%	30%
Income Tax assessed for the year	$ 582	$ 788

The annual tax return for fiscal 2019 has not been filed with the tax authorities yet. The term for filing that return expires on March 31, 2020; therefore, the information reported can be modified. If applicable, it is estimated that the effects will not significantly modify the result.

Deferred Income Tax

Deferred income tax assets and liabilities determined on tax and book values at 2019 and 2018 fiscal years' end are summarized as follows:

	2019	2018
Deferred assets:		
Initial commissions collected	$ 877	$ 906
Allowance for loan losses	3,297	3,220
PTU for the year and deferred	112	151
Total gross deferred assets	4,286	4,277
Less valuation allowance (Allowance for loan losses)	3,297	3,220
Deferred assets, net	989	1,057
Deferred liabilities:		
Release of reserves	607	645
Derivative financial instruments	819	877
Fixed asset and other deferred charges	(78)	17
Total deferred liabilities	1,348	1,539
Net deferred income tax liability (1)	$ (359)	$ (482)

(1) In fiscal 2018, the decrease in the income tax liability recorded in the amount of $117 at December 31, 2017 was recorded in retained earnings, which consists of a deferred PTU asset amounting to $66 and a decrease in the deferred liability arising from the assets of the Institution, by excluding a plot of land amounting to $51.

Reconciliation of the effective rate and the real income tax rate for fiscal 2019 and 2018

A reconciliation between the assessed statutory tax rate as set forth in the Income Tax Law, as well as the effective tax rate recognized in the accounting at December 31, 2019 and 2018 is presented below.

	2019		
	Amount	Tax	Effective rate
Income before tax on earnings	$ 4,813	$ 1,444	30.00%
Plus:			
Nondeductible expenses	18,453	5,536	115.02%
Taxable income	4,016	1,205	25.03%
Less:			
Deductible expenses	4,151	1,245	25.87%
Non-cumulative revenues	20,902	6,271	130.29%
Income before deduction of PTU	2,229	669	13.89%
Less:			
PTU paid in the fiscal year	289	87	1.80%
Taxable income for the year	1,940	582	12.09%
Total tax assessed (continued on next page)		582	12.09%

	2019		
	Amount	Tax	Effective rate
Total tax assessed (from prior page)		$ 582	12.09%
Allocation to deferred tax			
Temporary items			
Release of reserves	(123)	(37)	(0.77)%
Financial instruments and derivatives	(193)	(58)	(1.20)%
Revenues and unamortized expenses	118	36	0.74 %
Fixed assets, provisions and other deferred charges	(212)	(64)	(1.32)%
Deferred tax liability	$ (410)	(123)	(2.55)%
Taxes on earnings		$ 459	9.54 %

	2018		
Income before tax on earnings	$ 2,882	$ 865	30.00%
Plus:			
Nondeductible expenses	20,649	6,195	214.94%
Cumulative income	3,924	1,177	40.85%
Less:			
Deductible expenses	4,913	1,474	51.14%
Non-cumulative revenues	19,550	5,865	203.50%
Income before deduction of PTU	2,992	898	31.15%
Less:			
PTU paid in the fiscal year	366	110	3.81%
Taxable income for the year	2,626	788	27.34%
Total tax assessed		788	27.34%
Allocation to deferred tax			
Temporary items			
Release of reserves	479	144	5.00 %
Financial instruments and derivatives	(314)	(94)	(3.26)%
Revenues and unamortized expenses	(52)	(16)	(0.56)%
Fixed assets, provisions and other deferred charges	(97)	(29)	(1.01)%
Deferred tax liability	$ 16	5	0.17 %
Taxes on earnings		$ 783	27.17 %

At December 31, 2019 and 2018, the permanent items on which the statutory tax rate differs from the effective rate are summarized as follows:

	2019		2018	
	Tax	%	Tax	%
Income before tax on earnings	$ 4,813		$ 2,882	
Tax expected	1,444	30.00	865	30.00
Increase (reduction) resulting from:				
Annual adjustment on inflation	(529)	(10.99)	(776)	(26.93)
Release of reserves	73	1.52	293	10.17
Preventive estimate for loan risks	73	1.52	137	4.76
Nondeductible expenses	51	1.06	41	1.43
Market valuation	(682)	(14.17)	171	5.94
Net cost for the period	89	1.85	124	4.31
Initial commission	(86)	(1.80)	(17)	(0.59)
Derivative Financial trading	88	1.83	(70)	(2.43)
Non-cumulative revenues	(16)	(0.33)	(5)	(0.18)
Other tax items, net	77	1.60	20	0.69
Taxes on earnings expenses	$ 582	12.09	$ 783	27.17

Tax losses (ISR)

At December 31, 2019 and 2018, there were no prior year tax loss carryforwards against the taxable income of those fiscal years.

b. Deferred PTU

At December 31, 2019 and 2018, the Institution recorded income from deferred PTU amounting to $54 and $10, respectively.

At December 31, 2019 and 2018, the effects of deferred PTU on temporary differences arising from assets and liabilities are summarized below:

	2019	2018
Deferred assets:		
Initial commissions	$ 292	$ 302
Allowance for loan losses	1,099	1,073
Total gross deferred assets	1,391	1,375
Less valuation allowance (Allowance for loan losses)	1,099	(1,073)
Deferred assets, net	292	302
Deferred liabilities:		
Release of reserves	203	215
Derivative financial instruments	273	292
Fixed assets, provisions and other deferred charges	(27)	6
Total deferred liabilities	449	513
Net deferred PTU liability	$ (157)	$ (211)

20. Other liabilities and other accounts payables

At December 31, 2019 and 2018, other liabilities and other accounts payables are summarized as follows:

	2019	2018
Taxes withheld and shifted	$ 4,866	$ 5,027
Other liabilities	370	65
Unrealized allocations	134	97
Provisions for other obligations	79	39
Financial lease assets and liabilities (1)	22	65
Contributions to social security	16	14
	$ 5,487	$ 5,307

(1) At December 31, 2019 and 2018, financial lease assets and liabilities in are summarized as follows:

	2019	2018
Unassigned assets in financial lease agreements	$ 323	$ 366
Liabilities for acquisition of assets for financial lease	345	431
	$ 22	$ 65

Commitments formalized for the acquisition of assets are hedged by derivatives (forward contracts) for exchange rate risks.

21. Employee benefits

- **Defined benefit pension plan**

A reconciliation between defined benefit obligations (DBO) and plan assets (PA) at December 31, 2019 and 2018 with the liabilities recognized in the balance sheets at those dates is presented below:

	2019				
Provisions for:	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined Benefit Obligations (DBO)	$ (12,449)	$ (18)	$ (11,015)	$ (15)	$ (23,497)
Fair value of plan assets	13,074	10	8,870	-	21,954
Plan assets (PA)	625	(8)	(2,145)	(15)	(1,543)
Unrecognized actuarial losses	2,501	2	2,644	1	5,148
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 3,126	$ (6)	$ 499	$ (14)	$ 3,605

	2018				
Provisions for:	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined Benefit Obligations (DBO)	$ (10,813)	$ (18)	$ (9,334)	$ (19)	$ (20,184)
Fair value of plan assets	12,043	16	8,495	-	20,554
Plan assets (PA)	1,230	(2)	(839)	(19)	370
Unrecognized actuarial losses	2,728	3	2,885	2	5,618
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 3,958	$ 1	$ 2,046	$ (17)	$ 5,988

The summary of the net cost for the period ended December 31, 2019 and 2018 is shown below:

	2019				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2019:					
Labor cost of present service	$ 42	$ 1	$ 49	$ 1	$ 93
Financial cost	931	1	811	1	1,744
Expected return on plan assets	(1,040)	(1)	(736)	-	(1,777)
Actuarial loss, net	(88)	2	275	2	191
Net cost for the period	$ (155)	$ 3	$ 399	$ 4	$ 251

	2018				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2018:					
Labor cost of present service	$ 36	$ 1	$ 68	$ 1	$ 106
Financial cost	826	2	696	1	1,525
Expected return on plan assets	(919)	(1)	(603)	-	(1,523)
Actuarial loss, net	172	2	288	2	464
Net cost for the period	$ 115	$ 4	$ 449	$ 4	$ 572

At December 31, 2019 and 2018, employee benefits for vested and nonvested benefit obligations are shown below:

	2019				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Provisions for:					
Vested benefit obligation	$ 11,658	$ 16	$ 9,809	-	$ 21,483
Nonvested benefit obligation	791	2	1,206	$ 15	2,014
Defined Benefit Obligations (DBO)	$ 12,449	$ 18	$ 11,015	$ 15	$ 23,497

	2018				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Provisions for:					
Vested benefit obligation	$ 9,640	$ 16	$ 8,078	-	$ 17,734
Nonvested benefit obligation	1,173	2	1,256	$ 19	2,450
Defined Benefit Obligations (DBO)	$ 10,813	$ 18	$ 9,334	$ 19	$ 20,184

Changes in the present value of defined benefit obligations (DBO) are shown below:

	2019				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined benefit obligation (DBO)					
Present value of the DBO at January 1, 2019	$ 10,813	$ 18	$ 9,334	$ 19	$ 20,184
Labor cost of present service	42	1	49	1	93
Financial cost	931	1	811	1	1,744
Actuarial gain or loss on the obligation	1,467	4	1,391	(6)	2,856
Benefits paid	-	-	-	-	-
Payments made	(804)	(6)	(570)	-	(1,380)
Present value of the DBO at December 31, 2019	$ 12,449	$ 18	$ 11,015	$ 15	$ 23,497

	2018				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Defined benefit obligation (DBO)					
Present value of the DBO at January 01, 2018	$ 11,079	$ 21	$ 9,235	$ 19	$ 20,354
Labor cost of present service	36	1	68	1	106
Financial cost	826	2	696	1	1,525
Actuarial gain or loss on the obligation	(389)	1	(247)	(2)	(637)
Payments made	(739)	(7)	(418)	-	(1,164)
Present value of the DBO at December 31, 2018	$ 10,813	$ 18	$ 9,334	$ 19	$ 20,184

Plan assets are recognized at their fair value and the changes are as follows:

	2019				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Changes in fair value of plan assets (PA)					
Fair value of PA at January 1, 2019	$ 12,043	$ 16	$ 8,495	-	$ 20,554
Expected return on PA	1,435	-	945	-	2,380
Contributions of the Institution	-	-	-	-	-
Transfer to PA due to increase in maximum obligation	400	-	-	-	400
Benefits paid	(804)	(6)	(570)	-	(1,380)
Fair value of PA at December 31, 2019	$ 13,074	$ 10	$ 8,870	-	$ 21,954

	2018				
	Pension plan	Seniority premium	Other benefits at retirement	Termination benefits	Total
Changes in fair value of plan assets (PA)					
Fair value of PA at January 01, 2018	$ 12,277	$ 19	$ 8,031	-	$ 20,327
Expected return on PA	905	2	504	-	1,411
Contributions of the Institution	-	2	378	-	380
Transfer to PA due to increase in maximum obligation	(400)	-	-	-	(400)
Benefits paid	(739)	(7)	(418)	-	(1,164)
Fair value of PA at December 31, 2018	$ 12,043	$ 16	$ 8,495	-	$ 20,554

The Expected return on PA is determined based on the flow of expected payments reached with the value of the duration of instruments without risk at terms of 3, 5, 10, 20, and 30 years. A curve of rates is obtained on the horizon of expected payments by applying the "Nelson-Siegel" parametric model. An equivalent rate is obtained at the end.

At December 31, 2019, the Institution did not make ordinary contributions under this plan, whereas those contributions amounted to $380 for fiscal 2018.

At December 31, 2019, either directly or in a repo, 34% of the total plan assets are invested in governmental debt securities and savings protection bonds in 2019 (40% in December 2018). 21% in 2019 (20% in December 2018) are invested in debt securities issued by the development bank and other entities of the public sector, and 45% in 2019 (40% in December 2018) are invested in debt securities issued by states and municipalities, companies of the private sector with a high credit rating, mutual funds and equity mutual funds. At December 31, 2019, the term of the investments fluctuates between 2 days and 51 years, whereas the term fluctuated between 2 days and 29 years in 2018.

At December 31, 2019 and 2018, the return on these investments amounted to $1,525 and $1,456, respectively.

Annual information relative to the different defined benefit obligations corresponding to 2019 and of the last four years is presented below:

Pensions at December 31:	**2019**	2018	2017	2016	2015
Defined benefit obligation, DBO	$ (12,449)	$ (10,813)	$ (11,079)	$ (11,939)	$ (11,860)
Fair value of plan assets, PA	13,074	12,043	12,277	11,809	11,702
Funded status	$ 625	$ 1,230	$ 1,198	$ (130)	$ (158)
Seniority premium at December 31:					
Defined benefit obligation, DBO	$ (18)	$ (18)	$ (21)	$ (20)	$ (20)
Fair value of plan assets, PA	10	16	19	20	19
Funded status	$ (8)	$ (2)	$ (2)	$ -	$ (1)
Other benefits at retirement:					
Defined benefit obligation, DBO	$ (11,015)	$ (9,334)	$ (9,235)	$ (7,931)	$ (7,810)
Fair value of plan assets, PA	8,870	8,495	8,031	7,641	7,368
Funded status	$ (2,145)	$ (839)	$ (1,204)	$ (290)	$ (442)
Termination benefits:					
Defined benefit obligation, DBO	$ (15)	$ (19)	$ (19)	$ (19)	$ (9)
Funded status	$ (15)	$ (19)	$ (19)	$ (19)	$ (9)

The period for amortizing the different outstanding items with regard to the remaining average labor life of workers is presented below:

	2019	2018
Seniority premium	5	4
Pension plan	5	21
Other benefits at retirement	22	21
Indemnifications	4	4

The rates used at December 31, 2019 and 2018 in the actuarial study were as follows:

	2019	2018
Long-term inflation	3.50%	3.60%
Discount rate	7.50%	8.90%
Rate of expected salary increase	4.02%	4.12%
Expected rate of return on plan assets	7.50%	8.90%
Long-term average inflation rate	6.60%	3.60%

At December 31, 2019, with regard to accrued retirement benefit obligations arising from medical attention costs, the effect of increasing the rate half a percentage point, which is used of the cost of other benefits considering that the remaining assumptions do not change, amounted to $11,662 ($961 in 2018). The effect for reducing half a percentage point in the same assumptions would amount to $10,164 ($264 in 2018).

- **Defined contribution pension plan**

The Institution has an irrevocable trust fund to cover these obligations. The contributions of the Institution to the new Plan are made bi-weekly and they are equivalent to 10% of the salary of the worker in the terms defined in the CGT and 50% of the contributions made voluntarily by the worker, applicable up to 5% of the salary referred to above.

A reconciliation between the DBO and PA at December 31, 2019 and 2018, with the liabilities recognized in the balance sheets at those dates is presented below:

	2019				
	Other benefits at retirement	Termination benefits	Seniority premium	Death benefits	Total
Provisions for:					
Defined Benefit Obligations (DBO)	$ (105)	$ (98)	$ (9)	$ (27)	$ (239)
Fair value of plan assets	341	-	3	23	367
Plan assets (PA)	236	(98)	(6)	(4)	128
Actuarial gains (loss)	(3)	2	-	-	(1)
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 233	$ (96)	$ (6)	$ (4)	$ 127

	2018				
	Other benefits at retirement	Termination benefits	Seniority premium	Death benefits	Total
Provisions for:					
Defined Benefit Obligations (DBO)	$ (64)	$ (92)	$ (8)	$ (27)	$ (191)
Fair value of plan assets	292	-	5	22	319
Plan assets (PA)	228	(92)	(3)	(5)	128
Actuarial gains (loss)	(3)	5	-	-	2
Projected net asset (liability) recognized in the balance sheet (Note 16)	$ 225	$ (87)	$ (3)	$ (5)	$ 130

The summary of the net cost for the period ended December 31, 2019 and 2018, is shown below:

	2019				
	Death benefit	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2019:					
Labor cost of present service	$ 9	$ 2	$ 11	$ 22	$ 44
Prior labor service cost	-	-	-	-	-
Financial cost	2	1	6	7	16
Amortizations of the transition liability (asset)	-	-	-	-	-
Expected return on plan assets	(2)	-	(26)	-	(28)
Actuarial (gain) loss, net	(1)	-	(10)	7	(4)
Net cost for the period	$ 8	$ 3	$ (19)	$ 36	$ 28

	2018				
	Death benefit	Seniority premium	Other benefits at retirement	Termination benefits	Total
Summary of net cost of the period 2018:					
Labor cost of present service	$ 6	$ 1	$ 13	$ 19	$ 39
Prior labor service cost	-	-	-	-	-
Financial cost	1	-	5	5	11
Amortizations of the transition liability (asset)	-	-	-	-	-
Expected return on plan assets	(1)	-	(21)	-	(22)
Actuarial (gain) loss, net	(1)	-	-	2	1
Net cost for the period	$ 5	$ 1	$ (3)	$ 26	$ 29

The Expected return on PA is determined based on the flow of expected payments reached with the value of the duration of instruments without risk at terms of 3, 5, 10, 20, and 30 years. A curve of rates is obtained on the horizon of expected payments by applying the "Nelson-Siegel" parametric model. An equivalent rate is obtained at the end.

At December 31, 2019, the Institution did not make ordinary contributions under this plan, whereas those contributions amounted to $16 for fiscal 2018.

At December 31, 2019, either directly or in a repo, 34% of the total plan assets are invested in governmental debt securities and savings protection bonds in 2019 (44% in 2018); 14% in 2019 (16% in 2018) are invested in debt securities issued by the development bank and other entities of the public sector, and 52% in 2019 (40% in 2018) is invested in debt securities issued by states and municipalities, companies of the private sector with a high credit rating, mutual funds. At December 31, 2019, the term of the investments fluctuates between 2 days and 51 years, whereas the term fluctuated between 2 days and 29 years in 2018.

The real return on these investments at December 31, 2019 and 2018 amounts to $50 and $66, respectively.

At December 31, 2019, with regard to accrued retirement benefit obligations arising from medical attention costs, the effect of increasing the rate half a percentage point, which is used of the cost of other benefits considering that the remaining assumptions do not change, would amount to $132 ($10 in 2018). The effect for reducing half a percentage point in the same assumptions would amount to $89 ($11 in 2018).

22. Commitments and contingent liabilities

a. Operating lease

The Institution has operating lease agreements, in which the Ministry of Public Office, through the Institute of Administration and Appraisals of National Assets (INDAABIN-Spanish acronym) sets forth the contracting criteria annually.

Rents paid at December 31, 2019 and 2018 amounted to $18 and $16, respectively.

b. Lawsuits and complaints

At December 31, 2019 and 2018, the Institution is a defendant in some labor, labor, and commercial lawsuits, of which it is estimated that there is a high probability in three cases of an outflow of proceeds in the amount of $8, whereas six cases were estimated in the amount of $12 for 2018.

c. Contingent assets and liabilities

At December 31, 2019 and 2018, contingent assets and liabilities are summarized as follows:

	2019	2018
Loan guarantees	$ 13,365	$ 11,866
Lines of contingent credit	23,512	4,984
Receivables on claims	543	498
	$ 37,420	$ 17,348

d. Credit commitments

At December 31, 2019 and 2018, the credit lines not exercised by clients of the Institution amount to $38,354 and $45,221, respectively.

e. Reviews (audits) by tax authorities

In accordance with currently enacted tax legislation, the tax authorities have the power to review up to five tax years prior to the last tax return filed, which could give rise to tax differences arising from the distinct interpretation criteria of tax legislation between the Institution and the tax authorities.

23. Stockholders' Equity

a. Capital stock

At December 31, 2019 and 2018, capital stock consists of 9,357,545,917 series "A" certificates of capital contribution (CAPs), and 4,820,553,957 series "B" CAPs, with a par value of one Mexican pesos. At December 31, 2019 and 2018, paid-in capital stock amounts to $17,604.

	2019		2018	
	Historical	Restated	Historical	Restated
Common fixed capital stock:				
Series "A" CAPs	$ 13,200	$ 15,461	$ 13,200	$ 15,461
Series "B" CAPs	6,800	7,965	6,800	7,965
	20,000	23,426	20,000	23,426
Unissued common fixed capital stock:				
Series "A" CAPs	3,843	3,843	3,843	3,843
Series "B" CAPs	1,979	1,979	1,979	1,979
	5,822	5,822	5,822	5,822
Issued capital stock	$ 14,178	$ 17,604	$ 14,178	$ 17,604

* The sums and some amounts can vary due to rounding-off effects.

b. Capital movements

On December 30, 2019, the Institution received the amount of $5,743 from the Federal Government through the SHCP, as a contribution for future capital increases for its subsequent formalization and increase in paid-in capital stock. At the issue date of the financial statements (March 2020), 2,189,483,511 certificates of capital contribution are in the process of being subscribed (1,445,059,117 series "A" CAPs and 744,424,394 series "B" CAPs) corresponding to the contribution for future capital increases received by the Institution from the SHCP in the amount of $7,585 on November 28, 2018.

On December 6, 2018, the contribution for future capital increases corresponding to fiscal 2017 was capitalized in order to be as follows:

Year	No CAPs	Nominal value	Capital Stock*	CAPs subscription value	Premium on subscription of CAPs
Series "A"					
2017	572,392,413	1	$ 572	2.54564448	$ 1,456
Series "B"					
2017	294,868,819	1	295	2.54564448	751
TOTAL	867,261,232		$ 867		$ 2,207

* The sums and some amounts can vary due to rounding-off effects.

c. Restrictions on stockholders' equity

Subscription of CAPS

Series "A" CAPS may only be subscribed by the Federal Government, through the issue of a unique security, without coupons, nontransferable, and at no time may its nature or rights conferred to the Federal Government be changed. series "B" CAPS may be subscribed by the Federal Government, state and municipality governments, and by Mexican individuals and legal entities, in strict compliance with the provisions of article 33 of the Credit Institutions Law.

Legal reserve

In accordance with the Internal Regulations of the Institution, its Regulations, and Credit Institutions Law, 10% of the net income of every fiscal year should be separated to create and increase the legal reserve until that reserve is equivalent to paid-in capital stock. The reserve may not be disposed of to pay dividends or for any other purpose, except for capitalization. At December 31, 2019 and 2018, the legal reserve amounts to $3,247 and $3,037, respectively, which is presented in the caption of Capital reserves of stockholders' equity

Other reserve

At December 31, 2019 and 2018, the Institution has created another capital reserve that amounts to $1,970 in both fiscal years.

d. Availability of earnings

The Mexican Income Tax Law sets forth that dividends drawn against earnings that have paid corporate Income Tax will not be subject to the payment of that tax. Toward that end, taxable income should be controlled through the Net Taxable Income Account (CUFIN, its acronym in Spanish). Dividends paid that exceed the CUFIN balance will be subject to the payment of Income Tax in the terms of currently enacted legislation at the date on which dividends are distributed.

The Income Tax Law sets forth that legal entities must carry a paid-in capital account (CUCA, its acronym in Spanish) that will be increased by capital contributions, net premiums on subscribed for shares made by stockholders, and they will be reduced by capital decreases carried out. The balance of that account should be restated for inflation occurring in Mexico at each fiscal year end, and when capital contributions or decreases are made.

In conformity with the Income Tax Law, the amount of a capital decrease will not be subject to income tax when that reduction does not exceed the CUCA balance. The difference will be considered a distributed earning, which determines the tax assessed at the applicable rate on the date of the decrease, in conformity with the procedure provided for in the currently enacted Income Tax Law.

At December 31, 2019 and 2018, the balances of tax accounts are summarized as follows:

	2019	2018
CUCA (Restated Paid-in Capital Account)	$ 60,189	$ 52,953
CUFIN (Net Taxable Income Account)	15,093	14,536

e. Capitalization ratio (unaudited information)

At December 2019-month end, Banobras estimates that net capital with regard to assets subject to a credit risk was placed at 27.10% and at 18.20%, with regard to assets subject to total risks. Those ratios were 26.00% and 18.51%, respectively, at December 2018-year end.

The summary of the capitalization ratio at December 31, 2019 and 2018 is as follows:

Millions of Mexican pesos and %	2019 Credit ratio	2019 Total ratios	2018 Credit ratio	2018 Total ratios
Basic capital	26.50	17.81	25.40	18.09
Supplementary capital	0.60	0.40	0.60	0.43
Net capital	**27.10**	**18.20**	**26.00**	**18.51**
Assets at risk	235,954	351,212	215,911	303,268

* The sums and some amounts can vary due to rounding-off effects.
Amounts of Assets at risk in millions of Mexican pesos.

f. Summary of net capital (unaudited information)

At December 31, 2019 and 2018, Banobras estimates that net capital amounted to $63,935 and $56,141 million of Mexican pesos[1], respectively. The amount of basic and complementary net capital is itemized below:

	2019	2018
Stockholders' Equity	$ 62,648	$ 55,046
Less:		
Investments in stock of financial entities	7	2
Investments in stock of non-financial entities	36	36
Intangibles and deferred expenses or costs	79	91
Gain or loss on valuation of cash flow hedging instruments	4	65
Other assets that are reduced	-	-
Basic capital	62,523	54,851
General preventive reserves for credit risks	1,412	1,290
Supplementary capital	1,412	1,290
Net capital	$ 63,935	$ 56,141

* The sums and some amounts can vary due to rounding-off effects.
Amounts in millions of pesos.

g. Assets at risk (unaudited information)

At December 31, 2019, Banobras estimates that total assets at risk amounted to $351,212 million of Mexican pesos, of which 67.2% comprised assets at credit risk.

The evolution between December 31, 2019 and 2018 of assets at market and credit risk is shown below:

Assets at market risk at December 31, 2019

Item	Amount of equivalent positions	Capital requirement
Transactions in Mexican pesos at a nominal rate	$ 62,631	$ 5,010
Trades with debt securities in Mexican pesos with a surcharge and a reviewable rate	14,255	1,140
Transactions in Mexican pesos at a real rate or denominated in UDIS or UMAS	7,297	584
Transactions in foreign currency at a nominal rate	3,005	240
Positions in UDIS or with a return based on the NCPI	17	1
Foreign exchange positions or with a yield indexed to the exchange rate	3,463	277
Positions in shares with a return indexed to the price of a share of group of shares	135	11
	$ 90,803	$ 7,264

[1] The amount reported at 2018-year end was restated as the result of the actuarial study of remeasurements for defined employee benefits.

Assets at market risk at December 31, 2018

Item	Amount of equivalent positions	Requirement Increases
Transactions in Mexican pesos at a nominal rate	$ 40,531	$ 3,242
Trades with debt securities in Mexican pesos with a surcharge and a reviewable rate	14,495	1,160
Transactions in Mexican pesos at a real rate or denominated in UDIS	6,914	553
Transactions in foreign currency at a nominal rate	1,950	156
Positions in UDIS or with a return based on the NCPI	14	1
Foreign exchange positions or with a yield indexed to the exchange rate	1,962	157
Positions in shares with a return indexed to the price of a share of group of shares	135	11
	$ 66,000	$ 5,280

Assets at credit risk under the Standard Method at December 31, 2019

Item	Risk weighted Assets	Capital requirement
Group II (weighted at 0%)	$ 1	$ 0
Group II (weighted at 20%)	50	4
Group III (weighted at 20%)	10,585	847
Group III (weighted at 50%)	0	0
Group III (weighted at 100%)	7	1
Group IV (weighted at 20%)	3,350	268
Group V (weighted at 20%)	26,159	2,093
Group V (weighted at 50%)	32,748	2,620
Group V (weighted at 115%)	1,148	92
Group V (weighted at 150%)	5,297	424
Group VI (weighted at 100%)	2,338	187
Group VII_A (weighted at 20%)	6,828	546
Group VII_A (weighted at 50%)	3,788	303
Group VII_A (weighted at 100%)	126,574	10,126
Group VII_B (weighted at 20%)	3,081	247
Group VII_B (weighted at 100%)	4,496	360
Group VIII (weighted at 115%)	24	2
Group IX (weighted at 100%)	6,306	505
Group X (weighted at 1250%)	0	0
Securitizations with a Risk 1 Rating (weighted at 20%)	1,300	104
Securitizations with a Risk 2 Rating (weighted at 50%)	250	20
Securitizations with a Risk 3 Rating (weighted at 100%)	1624	130
	$ 235,954	$ 18,876

* The sums and some amounts can vary due to rounding-off effects.
Amounts in millions of Mexican pesos.

Assets at credit risk under the Standard Method at December 31, 2018

Item	Risk weighted assets	Capital requirement
Group II (weighted at 20%)	$ 13	$ 1
Group III (weighted at 20%)	9,345	748
Group III (weighted at 50%)	6	1
Group III (weighted at 100%)	8	1
Group IV (weighted at 20%)	3,113	249
Group V (weighted at 20%)	25,377	2,030
Group V (weighted at 50%)	25,350	2,028
Group V (weighted at 115%)	1,204	96
Group V (weighted at 150%)	5,674	454
Group VI (weighted at 100%)	2,773	222
Group VII_A (weighted at 20%)	6,310	505
Group VII_A (weighted at 50%)	2,973	238
Group VII_A (weighted at 100%)	121,253	9,700
Group VII_B (weighted at 20%)	2,191	175
Group VII_B (weighted at 100%)	1,048	84
Group VIII (weighted at 115%)	197	16
Group IX (weighted at 100%)	6,494	520
Securitizations with a Risk 1 Rating (weighted at 20%)	0	0
Securitizations with a Risk 3 Rating (weighted at 100%)	1,117	89
	$ 215,911	$ 17,273

* The sums and some amounts can vary due to rounding-off effects.
Amounts in millions of Mexican pesos.

h. Evaluation of variations in interest income, and in economic value (unaudited information)

Banobras presents a 0.40% decrease in the Economic Value of Capital in the quarter, due primarily to the decrease in stockholders' equity. The Economic Value of capital increased 11.9% in the year, due mainly to the increase in positions in the Balance sheet and the decrease in rates during the year. Banco de Mexico decreased the benchmark rate to 7.25% during the year, due to the stabilization of inflation and little economic growth. Moreover, at December month end, Stockholders' Equity presented a 1.35% increase with regard to September 2019, and 15% with regard to the closing of the prior year.

It is important to note that the loan portfolio, financial guarantees (FG), formerly known as Guarantees of Timely Payment, as well as the funding and risk mitigation structure through OTC derivatives, are the elements that have the highest impact on the financial margin and risk of the Balance Sheet of Banobras. OTC derivatives are specifically highlighted by the Extinguishing Cross Currency Swap that has an associated contingency due to its extinction clause, which is recognized at an accounting level, and it is valued through a methodology approved by the CAIR.

Based on the interest rate risk management methodology of the balance sheet and liquidity risk, the Economic Value of Capital was calculated with regard to stockholders' equity at December 2019-month end, which decreased 3.06% with regard to September 2019, and it decreased 4.86% with regard to December 2018.

The Economic Value of Capital considers an adjustment for credit risk, due to the expected loss of economic value of the portfolio, derivatives, and negotiable instruments that represented 8.55% this quarter, with regard to the economic value of capital, that is, it decreased 0.38% in the quarter and 1.9% with regard to December 2018. The decrease in the proportion is explained mainly by the increase in the economic value, due to the decrease in rates. On the other hand, the expected loss of economic value of the portfolio with regard to its economic value, that is, PEc/VEc represents 1.88%, in comparison with 1.96% of the prior quarter, and 2.20% of the prior year. That expected loss considers the estimate of credit risk in each one of the flows receivable from the portfolio at present value.

To know the sensitivity of the balance sheet to movements in interest rates, a 30% unfavorable movement was simulated in interest rates, with which a potential 6% unrealized loss was estimated in the Economic Value of Capital, that is, 2.06% more than the prior quarter and 3.23% less than at December 2018-month end. The foregoing indicates that given the balance sheet of the date in question, a 30% unfavorable movement at a level of rates would generate a 6% unrealized loss with regard to future cash flows receivable and deliverable at present value.

The DGAP (duration gap) at December 2019-month end was 0.08 years, less than that calculated of 0.09 in September 2019, and that calculated in December 2018 was 0.14 years. The decrease observed in the year is explained by the changes in the composition of the balance sheet. During the quarter, the recomposition of the portfolio and investments in securities favors the reduction of the DGAP of the Balance Sheet. The positive sign of the DGAP indicates that the Economic Value of Capital of Banobras is sensitive to increases in interest rates. Descriptive statistics of the main credit and market risk exposure metrics are presented below:

	2019				2018	Statistics	
	Dec-19	Nov-19	Oct-19	Sept-19	Dec-18	Average	Standard departure
Sensitivity in EV of capital at 30%	-6.00%	-3.93%	-3.94%	-3.94%	-3.94%	-4.35%	0.92%
EL/EV of Capital	8.55%	8.71%	8.80%	8.93%	10.45%	9.05%	0.68%
EL_C/EV_C	1.88%	1.91%	1.91%	1.92%	2.20%	1.97%	0.14%
DGAP (years)	0.08	0.08	0.09	0.09	0.14	0.09	0.02

VE: Economic Value
PE: Expected Loss of the economic value of capital
PE_C: Expected Loss of the economic value of the Portfolio
VE_C: Economic Value of the Portfolio
DGAP: Duration of the Balance Sheet

24. Comprehensive income

For the fiscal years ended December 31, 2019 and 2018, comprehensive income is summarized as follows:

	2019	2018
Net income	$ 4,354	$ 2,099
Gain or loss on valuation of available-for-sale securities	63	(886)
Gain or loss on valuation of cash flow hedging instruments	(62)	(2)
Remeasurements for defined employee benefits	(2,503)	534
Comprehensive income	$ 1,852	$ 1,745

25. Segment information

The activities that comprise the operation of the Institution are identified in the following segments:

a)	Financial agent of the Federal Government.	Credit transactions with proceeds from international financial agencies and those carried out under the Mandate concept in which the Institution acts for account and by order of the Federal Government itself under the terms and specific conditions set out by the SHCP, as well as the applicable standards according to the source of proceeds.
b)	First-tier credit transaction	Financing is granted directly or via guarantees to the states and municipal governments, their agencies and trusts, as well as to the private sector for carrying out projects and infrastructure and public service works. Those granted to financial brokers are also included, which represent 6.3% of the total loan portfolio.
c)	Treasury and investment bank operations	Operations whereby the Institution participates for its own account and as a complementary support for its clientele on money markets (repos on debt securities), foreign exchange market (buy and sell of currency), derivative financial instruments trading (for trading purposes, and custody of securities. Moreover, they are considered investments in securities and cash and cash equivalents generated by banking activity.
d)	Trustee services and technical assistance	Due to the trust, the trustor (Federal Government, states, municipal governments, their agencies, and trusts, as well as the private sector) allocate certain assets toward a determined legal purpose, by delegating the realization of that purpose to a trustee institution or bank.
e)	Other operating income (expenses)	Activities oriented to support the states, municipal governments, their agencies and trusts, as well as the private sector, through specialized sectoral assistance, advisory services for financial strengthening, evaluation, and investment project structuring, etc., in order to best channel investments for the development of infrastructure and public services of the country.

At December 31, 2019 and 2018, operating income, as well as the reconciliation with the statement of income for each segment are shown below:

	2019						
Prior	Financial Agent of the Federal Government (a)	First-tier credit transaction (b)	Treasury and investment bank operations (c)	Trustee services (d)	Technical assistance (e)	Others	Total
Interest income							
cash and cash equivalents	-	-	$ 1,037	-	-	-	$ 1,037
Investments and memorandum accounts	-	-	31,080	-	-	-	31,080
Repos trading	-	-	4,831	-	-	-	4,831
Loan portfolio	$ 14	$ 40,850	-	-	-	-	40,864
Gain or valuation of UDIS	-	-	-	-	-	-	-
Commissions on the initial granting of loans	-	302	-	-	-	-	302
Dividends of net equity instruments	-	-	17	-	-	-	17
	14	41,152	36,965	-	-	-	78,131
Interest expenses							
Interbank loans and from other agencies	8	1,512	-	-	-	-	1,520
Deposit funding	-	30,497	1,183	-	-	-	31,680
Repos trading	-	-	32,420	-	-	-	32,420
Loss in changes due to valuation	-	342	-	-	-	-	342
	8	32,351	33,603	-	-	-	65,962
Financial margin	6	8,801	3,362	-	-	-	12,169
Allowance for loan losses	-	244	-	-	-	-	244
Financial margin adjusted by credit risks	6	8,557	3,362	-	-	-	11,925
Commissions and fees collected	1	602	7	$ 420	$ 38	-	1,068
Commissions and fees paid	-	17	39	-	-	-	56
Intermediation income:							
Valuation of derivative financial instruments and items attributable to the hedged risk	-	186	-	-	-	-	186
Buy and sell of securities	-	-	107	-	-	-	107
Foreign exchange transactions	-	-	82	-	-	-	82
Derivative Financial trading	-	-	(32)	-	-	-	(32)
Interest on derivative financial trading operations	-	-	377	-	-	-	377
Valuation of derivative financial instruments for trading purposes	-	-	1,251	-	-	-	1,251
Valuation of securities	-	-	839	-	-	-	839
Other operating income (expenses)	-	(25)	-	9	22	$ (8,219)	(8,213)
Administration and promotion expenses	3	918	126	304	16	1,354	2,721
Operating income	4	8,385	5,828	125	44	(9,573)	4,813
Caused income tax	-	-	-	-	-	(582)	(582)
Deferred taxes on earnings (net)	-	-	-	-	-	123	123
Earnings (loss) before discontinued operations	4	8,385	5,828	125	44	(10,032)	4,354
Discontinued operations	-	-	-	-	-	-	-
Net income (loss)	$ 4	$ 8,385	$ 5,828	$ 125	$ 44	$ (10,032)	$ 4,354

Prior	Financial Agent of the Federal Government (a)	First-tier credit transaction (b)	Treasury and investment bank operations (c)	Trustee services (d)	Technical assistance (e)	Others	Total
	2018						
Interest income							
Cash and cash equivalents	-	-	$ 981	-	-	-	$ 981
Investments and memorandum accounts	-	-	28,498	-	-	-	28,498
Repos trading	-	-	1,618	-	-	-	1,618
Loan portfolio	$ 16	$ 36,058	-	-	-	-	36,074
Gain or valuation of UDIS	-	146	-	-	-	-	146
Commissions on the initial granting of loans	-	577	-	-	-	-	577
Dividends of net equity instruments	-	-	-	-	-	$ 30	30
	16	36,781	31,097	-	-	30	67,924
Interest expenses							
Interbank loans and from other agencies	10	1,446	-	-	-	-	1,456
Deposit funding	-	26,509	1,165	-	-	-	27,674
Repos trading	-	-	26,847	-	-	-	26,847
Loss in changes due to valuation	-	171	-	-	-	-	171
	10	28,126	28,012	-	-	-	56,148
Financial margin	6	8,655	3,085	-	-	30	11,776
Allowance for loan losses	-	467	-	-	-	-	467
Financial margin adjusted by credit risks	6	8,188	3,085	-	-	30	11,309
Commissions and fees collected	1	749	109	$ 398	$ 101	-	1,358
Commissions and fees paid	-	16	37	-	-	-	53
Intermediation income:							
Valuation of derivative financial instruments and items attributable to the hedged risk	-	(187)	-	-	-	-	(187)
Buy and sell of securities	-	-	160	-	-	-	160
Foreign exchange transactions	-	-	91	-	-	-	91
Derivative Financial trading	-	-	624	-	-	-	624
Interest on derivative financial trading operations	-	-	303	-	-	-	303
Valuation of derivative financial instruments for trading purposes	-	-	(25)	-	-	-	(25)
Valuation of securities	-	-	(357)	-	-	-	(357)
Other operating income (expenses)	-	(3)	-	-	-	(7,472)	(7,475)
Administration and promotion expenses	10	885	154	205	93	1,519	2,866
Operating income	(3)	7,846	3,799	193	8	(8,961)	2,882
Caused income tax	-	-	-	-	-	788	788
Deferred taxes on earnings (net)	-	-	-	-	-	(5)	(5)
Earnings (loss) before discontinued operations	(3)	7,846	3,799	193	8	(9,744)	2,099
Discontinued operations	-	-	-	-	-	-	-
Net income (loss)	$ (3)	$ 7,846	$ 3,799	$ 193	$ 8	$ (9,744)	$ 2,099

(a) At December 31, 2019, both assets and liabilities as a Financial Agent of the Federal Government amount to $498 ($581 and $580 at December 31, 2018). For the year ended December 31, 2019, cash flows of assets and liabilities as a Financial Agent of the Federal Government amount to $83 and $82, respectively ($92 and $102 at December 31, 2018).

(b) At December 31, 2019, assets and liabilities for first-tier credit transactions consist of $443,821 and $395,213, respectively ($433,650 and $391,128 at December 31, 2018).

At December 31, 2018, cash flows of assets and liabilities for first-tier credit transactions consist of $10,171 and $4,085, respectively ($31,225 and $30,194 at December 31, 2018).

(c) Assets and liabilities relative to treasury securities trading in investments, cash and cash equivalents, securities, repos, and derivatives trading at December 31, 2019 are comprised of $434,039 and $426,935, respectively ($392,946 and $387,115 at December 31, 2018).

At December 31, 2019, cash flows of assets and liabilities for treasury securities trading and investment banking consist of $41,093 and $39,820, respectively ($50,097 and $42,941 at December 31, 2018).

26. Financial margin

For the years ended December 31, 2019 and 2018, the summary of financial margin, which is presented in the statement of income, is as follows:

Financial margin	2019 Mexican pesos and UDIS	2019 Foreign currency	2019 Total
Interest income:			
Interest from cash and cash equivalents	$ 1,034	$ 3	$ 1,037
Interest and yields from collateral furnished	234	-	234
Interest and yields from investments in securities (a)	30,675	173	30,848
Interest on performing loan portfolio (b)	38,887	1,962	40,849
Interest on nonperforming loan portfolio	-	13	13
Commissions on the initial granting of loans (c)	253	49	302
Interest and yields in repurchase agreement transactions (d)	4,831	-	4,831
Dividends from net equity instruments	-	17	17
	75,914	2,217	78,131
Interest expenses:			
Interest on Time deposit (e)	26,217	90	26,307
Interest on debt securities issued (e)	3,983	207	4,190
Interbank loans and other agencies (f)	829	691	1,520
Interest and yields in repurchase agreement transactions (g)	32,363	57	32,420
Discount on debt placement (e)	1,183	-	1,183
Loss due to changes in valuation	159	183	342
	64,734	1,228	65,962
Financial margin	$ 11,180	$ 989	$ 12,169

Financial margin	2018 Local currency and UDIS	2018 Foreign currency	2018 Total
Interest income:			
Interest from cash and cash equivalents	$ 970	$ 11	$ 981
Interest and yields from collateral furnished	26	-	26
Interest and yields from investments in securities (a)	28,311	161	28,472
Interest on performing loan portfolio (b)	34,382	1,691	36,073
Interest on nonperforming loan portfolio	1	-	1
Commissions on the initial granting of loans (c)	514	63	577
Interest and yields in repurchase agreement transactions (d)	1,618	-	1,618
Dividends from net equity instruments	-	30	30
Exchange gain on appreciation	-	146	146
	65,822	2,102	67,924
Interest expenses:			
Interest on Time deposit (e)	22,900	110	23,010
Interest on debt securities issued (e)	3,297	202	3,499
Interbank loans and other agencies (f)	803	653	1,456
Interest and yields in repurchase agreement transactions (g)	26,803	44	26,847
Loss due to changes in valuation (e)	1,165	-	1,165
Exchange loss on appreciation	171	-	171
	55,139	1,009	56,148
Financial margin	$ 10,683	$ 1,093	$ 11,776

(a) Interest on each one of the categories of investments in securities are summarized as follows:

	2019	2018
Trading securities	$ 28,404	$ 26,390
Available-for-sale securities	951	655
Held-to-maturity securities	1,160	1,266
Interest on hedging transactions	333	161
	$ 30,848	$ 28,472

(b) Interest on the performing loan portfolio is summarized as follows:

	2019	2018
Commercial credits:		
Business or commercial activity	$ 12,453	$ 10,910
Financial entities	2,415	2,162
Governmental entities	24,893	21,951
Housing credit		
Medium class and residential	6	5
Loans granted as an Agent of the Federal Government	14	16
Interest on hedging transactions	1,068	1,029
	$ 40,849	$ 36,073

At December 31, 2019, interest on the nonperforming portfolio amounts to $13 and corresponds to its total to credits with a business or commercial activity, whereas it amounts to $1 and corresponds to housing credit for fiscal 2018.

(c) The commissions on the initial granting of loans are summarized as follows:

	2019	2018
Commercial credits:		
Business or commercial activity	$ 246	$ 506
Financial entities	6	21
Governmental entities	50	50
	$ 302	$ 577

(d) At December 31, 2019 and 2018, interest earned in repurchase transactions repos amounts to $4,831 and $1,618, respectively.

(e) Interest on deposit funding is summarized as follows:

	2019	2018
Interest on Time deposit	$ 26,103	$ 22,430
Interest on debt securities issued	3,763	3,243
Discount on debt placement	1,183	1,165
Interest on hedging transactions	631	836
	$ 31,680	$ 27,674

(f) Interest on interbank loans and from other agencies are summarized as follows:

	2019	2018
International agencies	$ 814	$ 829
Call Money	108	132
Loans from financial institutions	124	72
Banxico Auctions	336	278
Cost of hedge (FOAEM)	16	18
Interest on hedging transactions	122	127
	$ 1,520	$ 1,456

(g) Interest payable in repurchase transactions repos are summarized as follows:

	2019	2018
Governmental debt	$ 31,267	$ 26,030
Bank debt	1,153	817
	$ 32,420	$ 26,847

27. Intermediation income

For the years ended December 31, 2019 and 2018, it is summarized as follows:

	2019	2018
Gain or loss on valuation at fair value		
Trading securities	$ 839	$ (357)
Valuation of derivative financial instruments and items attributable to the hedged risk (1)	1,436	(212)
Derivative financial instruments for trading purposes	377	303
	1,813	91
Gain or loss on buying and selling:		
Swap transactions	107	160
Derivative trading	(32)	624
	75	784
Foreign currency	83	91
	$ 2,810	$ 609

(1) For the years ended December 31, 2019 and 2018, the offsetting of changes in fair value recognized in the Intermediation income in the statement of income of hedge derivatives and hedged positions is summarized below:

	2019	2018
(Loss) gain on changes in the valuation of hedging instruments	$ (6,570)	$ 686
Gain (loss) on changes in the valuation of hedged items	6,756	(873)
	$ 186	$ (187)

28. Other operating income (expenses)

At December 31, 2019 and 2018, this caption is summarized as follows:

	2019	2018
Public use taxes in benefit of the Federal Government	$ (8,307)	$ (7,585)
Interest on loans to personnel	78	75
Recoveries	55	34
For advisory services, technical assistance	22	30
Other operating income (expenses)	22	9
Allowance for uncollectible or doubtful accounts	(83)	(38)
	$ (8,213)	$ (7,475)

(1) Pursuant to the Federal Revenues Act and Rules of Operation of the SHCP, the SHCP instructs the Institution to pay public use taxes for furnishing the sovereign guarantee of the Federal Government.

Payments were made in the amounts of $800 and $7,507 in fiscal 2019, based on Official Letters 368.-032/2019 and 368.-197/2019 dated March 11 and December 30, 2019, respectively. For fiscal 2018, instructions were issued to make the payment of $7,585, in conformity with Official Letter 368.-066/2018 dated November 13, 2018.

29. Assets placed in trust or legal custody

At December 31, 2019 and 2018, Assets placed in trust or mandate are summarized as follows:

	2019	2018
Trust deeds	$ 17	$ 15
Management trusts	459,197	488,990
	459,214	489,005
Pension plan trusts	22,741	21,664
Mandates	9,316	9,086
Total assets placed in trust or legal custody	$ 491,271	$ 519,755

The institution's revenues from its trustee activities at December 31, 2019 and 2018 amounted to $420 and $399, respectively.

30. Assets in custody or administration

At December 31, 2003 and 2018, Assets in custody or administration are summarized as follows:

	2019	2018
Securities in custody and administration (a)	$ 325,783	$ 325,143
Guarantees received by the Institution (Note 9) (b)	29	1,623
Others	6	6
	$ 325,818	$ 326,772

a. Securities in custody and administration

At December 31, 2019 and 2018, balances of assets in custody and administration are summarized as follows:

	2019		2018	
	Securities	Fair Value	Securities	Fair value
PRLV	171,052,878,989	$ 145,686	217,333,461,138	$ 188,084
BPAS	4,086,356,483	10,963	983,762,091	9,468
BONDES	1,087,034,170	108,886	780,070,275	78,089
Certificates of deposit	130,499,204	13,121	126,675,392	12,703
Securities exchange certificate	149,483,997	17,939	160,247,251	18,014
CEBIC	1,868,226	1,288	1,868,226	1,237
BPAGT	32,718,773	3,299	1,125,712	113
BPAG	33,585,012	3,362	-	-
CETES	2,000,000	19	12,846,459	128
Fixed rate bonds	106,716,462	11,015	31,101,620	3,041
UDIBONOS	3,242,000	2,164	2,685,012	1,657
Debt securities	580	728	580	693
EUROBONDS	10,000	100	-	-
	176,686,393,896	318,570	219,433,843,756	313,227
Shares	4,297,928,665	7,213	5,176,234,010	11,916
	180,984,322,561	$ 325,783	224,610,077,766	$ 325,143

b. Guarantees received by the Institution

At December 31, 2019, the Institution received guarantees for repurchase transactions repos amounting to $29, whereas it received guarantees for $1,623 for derivative financial instruments trading in 2018.

At December 31, 2019 and 2018, revenues from custody and administration services amounts to $7 and $6, respectively.

31. Collateral in repurchase transactions repos

At December 31, 2019 and 2018, collateral in repurchase transactions repos shown in memorandum accounts are as follows (at fair value):

	2019	2018
Collateral received by the entity (1)	$ 37,379	$ 6,193
Collateral received and sold or furnished as a guarantee by the entity (2)	$ 33,626	$ 5,983

(1) The securities pursuant to these trades are bank and government securities, which were received and delivered as collateral in repurchase agreements repos (Note 8), which are summarized as follows (at fair value):

	2019	2018
Fixed rate bonds	$ 9,993	$ 152
BPAS	899	3,859
BONDES	11,100	1,001
CETES	300	500
CEBIC	495	503
BPAG28	2,455	178
BPAG91	11,887	-
UDIBONOS	250	-
	$ 37,379	$ 6,193

(2) Collateral received and sold or furnished as a guarantee by the Institution are summarized as follows:

	2019	2018
Fixed rate bonds	$ 9,993	$ 152
CEBIC	495	503
CETES	-	290
BONDES	8,646	1,001
BPAS	899	3,859
BPAG28	2,302	178
BPAG91	11,041	-
UDIBONOS	250	-
	$ 33,626	$ 5,983

32. Other memorandum accounts

At December 31, 2019 and 2018, balances of Other memorandum accounts are summarized as follows:

	2019	2018
Amounts contracted with derivative financial instruments	$ 600,969	$ 618,196
Induced credit:		
Guarantees amount guaranteed	13,365	11,866
No Guarantees amount not guaranteed	59,712	57,427
Contingent lines amount guaranteed	28	28
Contingent lines amount not guaranteed	288	298
Refinancing guaranteed	2,195	1,719
Guarantees by endorsement executed	1,132	1,179
Borrowing credit lines not yet drawn down	7,130	7,508
Uncollectible credits applied against the preventive estimate for loan risks	781	782
Other memorandum accounts	17,609	15,104
	$ 703,209	$ 714,107

33. Comprehensive risk management (unaudited information)

In conformity with the regulatory requirements of the National Banking and Securities Commission (CNBV), relative to the disclosure of the policies and procedures established by credit institutions for comprehensive risk management, the measures that have been implemented by Banobras management, as well as the corresponding quantitative information are presented below.

Objective of Comprehensive Risk Management

The objective of comprehensive risk management at Banobras is to identify, analyze, measure, oversee, limit, control, disclose, and treat the distinct risks to which the Institution is exposed in its operation, in order to protect its capital, by applying mitigation strategies and the integration of the risk culture in the daily operation, and establish mechanisms that enable it to carry out its activities with risk levels in accordance with its desired risk profile, net capital, and operating capacity.

Structure and organization of the function for Comprehensive Risk Management

The Board of Directors has created a Comprehensive Risk Management Committee (CAIR), whose objective is to manage risks to which the Institution is exposed and oversee that transactions carried out are adjusted to the desired risk profile, the Framework for comprehensive risk management, as well as the overall risk exposure limits approved by the Board of Directors.

Board of Directors

The Board of Directors, among the duties, approves and reviews the following at least once a year: i) the Desired risk profile of the Institution; ii) the Framework for comprehensive risk management; iii) levels of liquidity and capitalization with regard to its objectives and strategic plan; iv) the contingency financing play; and v) the overall risk exposure limits by type of risk and the mechanisms for carrying out corrective actions.

In addition, the Board must oversee the implementation of the strategy of Comprehensive Risk Management.

Comprehensive Risk Management Committee (CAIR)

The CAIR is the subcommittee to which the Board of Directors delegates the responsibility of risk management of the Institution.

This Subcommittee has attributions on the overall risk management of the Institution, whether they are recorded in or outside of the balance sheet and on the control of market risks, credit, liquidity, operating and unquantifiable risks.

The CAIR is presided over by the Chief Executive Officer and it is comprised of: i) at least one member of the Board; ii) at least an independent risk expert appointed by the Board; iii) the Chief Executive Officer; iv) the person responsible of the unit for comprehensive risk management; v) the person responsible for the internal audit duty of the Institution; and vi) the persons who are invited for that purpose, who may participate with the right to speak, but not to vote.

The duties of the CAIR are governed by the General Provisions applicable to Credit Institutions (Provisions) issued by the CNBV.

Associate General Directorate of Risk Management

The Associate General Directorate of Risk Management (DGAAR-Spanish acronym) supports the General Administrative Office, the CAIR, and the Board of Directors in the comprehensive risk management process to contribute to preserve the capital of the Institution and sustainability of the operation.

The DGAAR and its officers are independent at both a functional and organizational level of the business areas to avoid conflicts of interest and assure an appropriate separation of responsibilities.

External

The DGAAR has different systems and applications that facilitate the measurement, oversight, and control of the risks to which the Institution is exposed. They generate the corresponding reports and they have backup and control mechanisms that allow for the recovery of date from the systems used in risk management and valuation models.

The systems and applications that the DGAAR has are described in the sections corresponding to each type of risk.

Hedging policies and/or risk mitigation

Banobras operates with derivative financial instruments on over-the-counter-markets to hedge:

- Risks created by liabilities when such liabilities are in rates, exchange rates, and/or terms that differ from the assets to which capital is going to be allocated.

- Risks created by assets when such liabilities are in rates, exchange rates, and/or terms that differ from the liabilities which fund that position.

- The interest rate and/or currency to clients of Banobras as a tool for strengthening its credit structure in the terms in which it is authorized by the distinct government agencies of the governance of Banobras.

- The balance sheet of Banobras and/or improve the costs of funding structurally, by taking advantage of the prevailing conditions on financial markets.

Strategies and processes for overseeing the ongoing hedge effectiveness or risk mitigators

The *"Methodology for measuring hedge effectiveness in derivative financial instruments"* allows for quantifying the effectiveness with which derivative financial instruments mitigate or hedge the risk arising from its hedged items or primary positions. Hedge effectiveness reflects the degree in which the changes in fair value of a primary position or hedged item subject to risk factors are reversed or offset by the changes in the behavior of the instrument designated as a hedge.

The "Policies and procedures for measuring hedge effectiveness in derivative financial products" set forth the duties and responsibilities of the areas involved in the calculation and follow-up on hedge effectiveness with financial instruments contracted by Banobras, the criteria that is to be observed, as well as the motors or calculation tools and corresponding reports.

In addition, individual limits and specific limits are established for counterparty risk for limiting the concentration of hedges accepted. The mark-to-market of positions in favor of the Institutions are considered for financial derivatives trading.

Derivative collateral management

Banobras has derivatives trading portfolios with counterparties that include financial and non-financial institutions. For trading, it has contracts that allow for trading collateral.

The main collateral by amount is maintained with financial counterparties, especially Full Service Banking.

That collateral includes the following assets:

- Cash: MXN and USD
- National government securities denominated in MXN

Given the type of collateral, the measurement of concentration of hedges accepted does not apply.

Collateral assets are managed through the Ikos Guarantees system that contains the contractual parameters for each counterparty. It keeps the balance of each collateral and it calculates the margin calls daily, in accordance with the specific parameters applicable to each collateral.

For currency collateral, it is not necessary to value the balance thereof. Securities collateral is valued by using the price of the respective governmental value contained in the vector of the authorized price vendors. The processes for collateral management discussed above are described in the *Procedures Manual for Trading with Collateral*.

a) Credit risk

Banobras has an overall limit and specific credit risk exposure limits by line of business that must be aligned with the desired risk profile.

The overall limit measures the maximum credit risk exposure which Banobras is willing to assume, and it is determined by the sum of specific credit risk exposure limits. Specific credit risk exposure limits are determined for each group of possible creditworthy persons, including counterparties, considering the desired risk profile of the Institution, which is based on the target level of the capitalization ratio.

The limits described above are established by considering: i) an efficient allocation of capital; ii) the creditworthiness of borrowers; iii) current and potential capitalization requirements arising from new placements; and iv) net capital of the Institution.

In addition, maximum indebtedness limits (MIL) are established to control and measure credit risk individually, which are determined for each one of the operations in which Banobras participates. The risks corresponding to counterparty risk are included in those limits.

For purposes of granting credit, guaranteed refinancing, and financial guarantees, a risk premium is included in the credit rates associated with the operation of the Institution. Moreover, the estimate of the total loss is calculated in the VaR of the credit of the portfolio.

Concentration of Risk is controlled by establishing concentration and common risk limits, in accordance with the General provisions Applicable to Credit Institutions. Moreover, the charge of capital necessary is obtained to cover the expected loss that could be faced by Banobras due to the concentration of its private sector portfolio, funding lines for financial brokers and companies.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Maximum Indebtedness Limits (MIL)** Each methodology determines the MIL under a prudential criterion and through a quantitative and qualitative evaluation. The quantitative evaluation is based on the analysis of flows, financial statements, and creditworthiness, as well as the sufficiency of the resources to be placed in a trust in the case of LETEyM. The qualitative evaluation considers the analysis of various variables inherent of each line of business, among them, the ratings issued by rating agencies (when there is the practice of rating on the market), which serves to weight the results of the quantitative analysis. Limits are determined for: (I) states, FIMEM, and municipalities; (ii) water operating agencies; (iii) credits with own source of payment; (iv) companies; (v) financial brokers: multiple purpose financial institutions, full service banking institutions, foreign banking, development banking, brokerage firms, multilateral banks, non-financial counterparties with hedging operations, state-owned productive enterprise, as well as companies and public agencies of the State-owned Federal Public Administration; and (vi) investment portfolio instruments. Information of the probability of nonperformance obtained beginning with internal models is considered for the determination of MIL, which are documented in the Comprehensive Risk Management Manual of the Institution.

In addition, the Institution has a "methodology for determining the resources to place into a trust for credits whose means of payment or guarantee is a trust or a mandate". Financial variables are incorporated in their determination that consider the level of income to place in a trust and their volatility, as well as the profile of committed payments under conditions of stress.

Controls and on-line systems have been established to limit the credit risk of the counterparty of financial brokers. There is a system that is intended to calculate and support the management of Indebtedness Capacity through a State and Municipality Fund, in accordance with methodology in effect, approved by the CAIR.

In addition, there is a system developed for applying the methodology for determining the indebtedness limit for financial brokers (LETINT-Spanish acronym) authorized by the CAIR. It further provides the necessary information for monthly and quarterly risk reports.

Operating tolerances (thresholds) have been established contractually with regard to financial counterparties with which derivative financial trading has been agreed upon, so that if the market value of the operations portfolio exceeds that limit favorably for the Institution, it is received in cash guarantee and/or highly liquid instruments.

The follow-up on counterparty risk includes credit risk exposure arising from treasury operations, money desk, and derivative instruments. Moreover, there are counterparty limits for Investment Portfolio Instruments that are subject to credit risk.

The *"Policies and procedures for credit risk management"* set out the policies and procedures for the determination of the overall, specific, and operating limits (LET-Spanish acronym) of credit risk, including counterparty risk, as well as for timely follow-up on the creditworthiness ratings assigned by rating agencies.

ii) **Calculation methodology of risk premiums.** The calculation procedure is described for obtaining risk premiums for credits granted by Banobras, in order to incorporate the expected loss arising from the potential nonperformance of the borrower into the operation price, as well as a premium on concentration.

The premium is calculated by equalizing the expected loss with the amount charged for credit risk. Premiums are obtained starting with discount curves by rating and type of borrower, of which the probabilities of nonperformance are inferred as well as recovery rates. The premium on concentration can be added onto this premium, which depends on the individual charge of capital for concentration set out in the Methodology for calculation the concentration ratio of a portfolio and the charge of capital for concentration for the Banobras portfolio.

Policies and procedures are established for the calculation of risk premiums in the *"Policies and procedures for credit risk management"*.

iii) Methodology for determining the risk premium of the consideration of the financial guarantees and the risk component of the fee for availability of contingent credit lines. The calculation is based on estimating the expected loss and unexpected loss that Banobras would face in case of exercising the financial guarantee furnished by Banobras, Service Rendering Projects (PPS-Spanish acronym), Irrevocable Pari-Passu and contingent credit lines. The expected loss is obtained starting with a binomial tree.

The policies and procedures for the calculation of these considerations are set out in the "Policies and procedures for credit risk management".

iv) Methodology for the calculation of the consideration for risk of the guaranteed refinancing program. The consideration is calculated by estimating the amount that Banobras must charge to cover the expected loss at the time of refinancing, by assuming that the risk premium is unique throughout the life of the credit, and that it is the same that would be charged by a commercial bank. In addition, a premium on concentration can be included, as defined in the Methodology of calculation of risk premiums.

Policies and procedures for the calculation of the consideration are set out in the document of *"Policies and procedures for credit risk management"*.

v) Methodology for the calculation of the valuation adjustment on credit risk (CVA). Methodology for the calculation of credit risk for financial instruments under which the possible potential loss is estimated of financial operations in reference to the credit risk, which is calculated as the probability of nonperformance on the expected exposure of the set of financial operations of each counterparty. As well as the corresponding stress scenarios.

In addition, it incorporates the procedures for the calculation of Expected Positive exposure (EPE) to establish which are of a growing nature and the calculation of Wrong Way Risk (WWR), which measures possible adverse correlations between exposure and creditworthiness.

Policies and procedures for the calculation the CVA of are set out in the document *"Policies and procedures for credit risk management"*.

vi) Methodology for the determination of the limits and metrics of the desired risk profile of credit risk exposure. Methodology for determining the structure of specific limits and the overall limit of credit risk exposure, as well as the criteria for the redistribution of limits and for the estimation of normal limits and consumption of limits. The methodology is included for estimating the desired risk profile and restriction level for credit risk metrics on capital consumption, seeking to complement the limit structure with regard to the composition of portfolios.

vii) Methodology for estimating value in credit risk The credit VaR indicates the unexpected major loss that could be observed in the loan portfolio in a quarterly time horizon, with a 99% level of confidence. In addition, the credit VaR is calculated for the securities investment portfolio under the same assumptions.

The expected loss is the means of distribution of losses and gains, that is, it indicates an average of how much can be lost, and it is associated with the preventive reserves of the Institution against credit risks for the loan portfolio. The unexpected loss is the loss above the expected loss. The VaR in Banobras considers both the expected loss and the unexpected loss.

The methodology and the system incorporate the essential characteristics of the main borrowers of Banobras (state governments, municipalities, and project with their own source of payment), as well as their correlations and recovery rates.

Sensitivity tests are included for the analysis to determine the strength of capital in dealing with distinct scenarios in the creditworthiness of the borrowers of the portfolio, including extreme and systemic scenarios.

The corresponding policies and procedures are documented in the *"Policies and procedures for determining Credit VaR"*.

viii) Methodology for calculating the concentration ratio of a portfolio and the charge of capital for concentration for the Banobras portfolio. The portfolio concentration analysis is carried out at a consolidated level, by geographic region, institutional program and state. The calculation of portfolio concentration ratios is carried out to follow-up on concentration risk and its relationship with the value at risk and sufficiency of capital. Moreover, the concentration ratio is obtained for those positions that are of the balance sheet of the institution (memorandum accounts). These concentration ratios correspond to the inverse of the Herfindahl-Hirschman ratio (IHH), with which the number of debtors is measured that proportionately have a higher value of the portfolio. The maximum concentration occurs when a higher proportion of the portfolio is included in a reduced number of borrowers or individual counterparties, in comparison with the rest of the borrowers or counterparties. The HHI concentration index is defined as the ratio between the sum of reconciliation of the balance of each borrower or counterparty on the sum of balances to the reconciliation. In addition, the method is defined for calculating the charge of capital required to cover the loss that could be faced by Banobras for the concentration of its portfolio.

The policies and procedures set out for determining the concentration of risk are carried out based on the guidelines set forth in the General Provisions Applicable to Credit institutions published by the CNBV, and the information furnished by clients through forms for the detection of common risk in operations. These are documented in the: i) *"Policies and procedures for common risk management and diversification of credit risks"*; and ii) *"Policies and procedures for the analysis and follow-up on concentration and charge of capital for concentration for the Banobras portfolio"*.

There is an application at Banobras for calculating the credit value at risk (credit VaR) and portfolio concentration ratio by line of business, geographic region, level of risk, and consolidated level, in conformity with the methodology currently approved by the CAIR. That application generates and stores transition matrixes, by using distinct parameters defined by the user.

Upon starting the simulation process (Montecarlo), the application allows for selecting one of these matrixes to be used in the calculation, and it generates the distribution of losses of the portfolio under distinct scenarios, including scenarios in extreme conditions.

In addition, there is an application for the identification of Common Risk, which manages the information necessary to identify the common risk in credit operations, based on the information recorded in the business areas.

The application, through a recursive search algorithm, allows for identifying all those individuals or legal entities that could be related to the client or possible client in a patrimonial manner, which are inputted into the application. Moreover:

- It generates forms, lists, and regulatory reports required in the management process.
- It issues a common risk opinion, which allows for the business areas to follow up on the relationships and possible ties between borrowers.

ix) Methodology for determining extreme scenarios and credit risk sensitivity tests. This methodology allows for calculating stress scenarios of risk factors generated by credit risk. Credit risk VaR sensitivity scenarios are determined as well as risk concentration, and changes in the rating of borrowers, and the value of guarantees.

x) Loan Portfolio Rating Methods based on the General Provisions Applicable to Credit Institutions. Preventive estimates for credit risks are determined by applying the general methodology for rating the loan portfolio set forth in the General Provisions applicable to lending institutions (Provisions), published by the National Banking and Securities Commission (CNBV). Moreover, additional estimates are created recognized by the CNBV to cover risks that are not provided for in the Provisions.

The portfolio subject to rating as described in subsection XXIX, article 1° and article 110 of the Provisions consists of direct or contingent credits granted to states, municipalities, and their decentralized agencies, which correspond to investment projects with their own source of payment, financing of individuals/legal entities with business activity and financial entities. In turn, it includes guarantees furnished to state or municipal governments and legal entities with business activity. Some financing charged to the Federal Government are provided for in conformity with Article 112. Moreover, considering the Provisions referred to above, the risk level is determined of the consumer or mortgage credit portfolio payable by former employees.

b) Market risk

For monitoring, and controlling market risk exposure, Banobras has a market risk limit structure for each one of its operating desks and/or lines of business, which must be aligned with the desired risk profile of Banobras on a consolidated basis.

Operating desks (*Front Office*) are free to structure business and portfolios in their investment/operating policies, by considering the structure of market risk exposure limits.

The limit structure consists of: i) overall market risk exposure, which is set out for the consolidated position of the Institution; ii) specific market risk exposure limits set out for each operating desk and/or line of business; iii) concentration limits that are intended to control the amount traded of determined instruments or financial assets; and iv) trader limits that are set forth to delimit risk exposure in carrying out financial operations that are assigned in accordance with the level of responsibility of the traders and type of operation.

Methodologies, Policies, and Procedures and Systems or Applications

i) Market value at risk (VaR). The VaR is an estimate of the expected loss on a time horizon and with a given level of confidence. Market risk is calculated by applying the Conditional VaR methodology (CVaR), with a time horizon of one business day, a window of 500 data and a 97% confidence level, which is described in the "Methodology for the calculation of market risk at value (VaR).

The calculations of CVaR are obtained for each one of the operating desks (money market, currencies, and derivatives), which consolidate the position of Banobras. That calculation considers securities classified as trading, repurchase transactions repos, as well as for securities and derivative instruments classified as for trading.

For the valuation of market instruments and derivative instruments in the portfolios of Banobras, the Institution has the *"Methodology for valuation of market instruments in Mexico"*, and the *"Methodology for the valuation of derivative instruments"*, which allow for knowing the interest rate risk the valuation of instruments that form part of its investment portfolios.

In addition, the estimates of the market CVaR are compared with the theoretical losses and gains (caused only by movements in market variables) with daily data and for the period of the model data window. That seeks to calibrate, if deemed necessary, the models used or modify the assumptions of the market VaR calculation. These retrospective tests ("backtesting") are carried out monthly, and they are presented to the Board of Directors of the Institution every quarter.

The estimated Conditional VaR for the held-to-maturity position is informative, since they are not considered in the consumptions of the overall limit, nor specific of the operating desk.

The overall limit control and specific market risk limits is carried out by using the Conditional VaR method.

ii) Extreme scenarios and Market risk sensitivity tests. The models and parameters are described in the "Methodology for determining extreme scenarios and credit risk sensitivity tests", which allow for analyzing the relevant risk factors of the portfolio of Banobras to identify extreme scenarios or stress and sensitivity tests that have a major impact on their valuation.

iii) Methodology for estimating the replacement value of financial transactions. The methodology is used for estimating the replacement value of the financial instruments of the portfolio in a future time, in the event that the counterparties should fail to meet their obligations with Banobras.

The Institution has the "Policies and procedures for market risk management", as well as the "Operating Framework for the Investment Portfolio" for the identification, measurement, and market risk monitoring.

The market CVaR calculation of operating desks, sensitivity tests, and extreme scenarios are carried out daily, as well as the control of limits, which are reported to the General Offices, the person responsible for Internal Auditing, and the persons responsible for the business units.

There is a system at the Bank that seeks to calculate the market VaR of operating desks (money market desks, foreign exchange (FX) desks, derivatives desk) at a consolidated level, sensitivity and stress tests, as well as the calculation and follow-up on the effectiveness of derivative instruments designated as hedges.

c) Liquidity risk

Liquidity gaps of Banobras are calculated periodically to monitor liquidity risk arising from the difference between asset and liability flows of the Institution.

On the other hand, Banobras is considered as the low risk issuer on the market, since it has the guarantee of the Federal Government on its liabilities. Toward that end, the possibility that the Institution may face liquidity problems is low. However, the Institution has a Contingency Financing Plan that determines the strategies, policies, and policies to follow in the event that unexpected liquidity requirements or problems for liquidating assets should arise.

Moreover, an indicator structure has been established to monitor and control liquidity risk exposure.

Methodologies, Policies, and Procedures and Systems or Applications

i) Liquidity risk management. Liquidity risk implies the loss of ability to meet present and future cash flow needs that affect the daily operation or financial conditions of the Institution. This potential loss is measured and controlled at Banobras through models and indicators contained in the *"Interest rate risk management methodology of the balance sheet and liquidity risks"*, which include asset and liability management basis, maturity gas, accounting, flows and repricing, liquidity indicators, and the gap Break-even indicator.

The Break-even gap estimates the point in time at which the flows of assets and liabilities are equal, reflect the moment in time at which asset flows are sufficient to settle liability flows. This indicator can be calculated for any type of flow gap and it is intended to observe the behavior of flows and make business decisions based on this point.

The flow gap is determined monthly to identify the risks of concentration of flows of asset and liability money at distinct periods to which Banobras is exposed, as well as to determine capital requirements.

The projection of these flows is carried out based on the implied market rates, and the algebraic sum is realized between credit and borrowing positions to determine the liquidity gap and know the amount that should be refinanced or invested per period.

The following is considered to calculate this flow gap: the loan portfolio, money market positions, proprietary issues, interbank loans, and derivative financial instruments.

On the other hand, an indicator structure was established for monitoring and controlling liquidity risk exposure, and there are "contingency" and "follow-up" indicators. The contingency financing plan will be activated in the event that the levels established for contingency indicators fail to perform.

In addition, the calculation model is determined for the liquidity risk premium that reflects the additional cost that must be charged for granting financing to cover the liquidity risk caused by the difference between the financing term and the target funding term.

Policies and procedures for managing liquidity risk are set out in the document *"Policies and procedures for Liquidity Risk Management"*.

ii) **Methodology for determining extreme scenarios and liquidity and liquidity risk sensitivity and economic value of capital.** It is used to calculating stress scenarios of risk factors generated by liquidity and interest rate risk. The effect in dealing with a stress situation in financial income, the total cost of funding, interest rates, liquidity gaps, the economic value of capital, and the liquidity ratio of Banobras is intended to be analyzed through scenarios.

There is an application for calculating the liquidity gap of the Institution every month, by book, term, and by type of currency, in conformity with the methodology currently approved by the CAIR.

Moreover, the identification, measurement and monitoring of this type of risk, as well as the application of extreme scenarios and liquidity risk sensitivity tests are set out in the *"Policies and procedures for liquidity risk management"*.

d) Asset and Liability Management (ALM)

Asset and Liability Management (ALM) provides an overall vision of risks, by integrating and measuring them through the economic value of capital.

The ALM sets out the manner in which risk factors of the Balance Sheet can be stressed, as well as how scenarios can be analyzed with regard to the behavior of the composition of the portfolio, funding strategies, liquidity, and interest rate levels to evaluate the implications in creditworthiness and strength of the Economic value of the Capital of the Bank. In the international framework, the Basil Committee recommends simulating stress scenarios as a good practice, including extreme and systemic type scenarios to measure the effect thereof in the risk of the balance sheet.

Methodologies, Policies, and Procedures and Systems or Applications

i) **Interest rate risk management methodology of the balance sheet and liquidity risks.** The models are documented in the methodology that allow for measuring the potential loss in the economic value of capital through the VaR of economic value of capital, with a time horizon of one month, a window of 500 data, and a 99% confidence level, and the impact on its financial margin arising from changes in interest rates and the composition by portfolio rating. In addition, it allows for knowing the impact of credit and borrowing positions at different terms through different liquidity and market risk measurements, which must be analyzed jointly.

The ALM analysis through calculation motors that have been developed to be implemented allows for calculating the economic value of the capital of Banobras and their financial margin, and identifying the risk factors that are a factor thereon. The economic value is adjusted by credit risk, since it considers the expected loss of the portfolio in all its term, as well as the contribution of derivatives and trading securities.

In addition, it is a useful tool for measuring the impact of the operating strategy of the balance sheet to improve the use of capital, as well as contributing to maximizing the risk adjusted return.

The ALM analysis is carried out by monitoring the risk of all operations of the Balance Sheet of Banobras, including the loan portfolio, funding, and hedges. It allows for quantifying the payment behavior of borrowers (credit risk) through simulation techniques and tools, as well as the added value of business strategies (for example: changes in the funding structure and the hedging with derivatives strategy.

The results of the model are calibrated and reported to the CAIR and Board of Directors quarterly. The Institution has an application that allows for valuing credit and borrowing positions of the balance sheet, by respecting parameterization and assumptions defined for each position approved by the Risk Management Committee.

This application consists of modules, which homologate and integrate mark-to-market metrics, economic value of capital, VaR of the economic value of capital, DGAP of duration, sensitivity, and stress scenarios.

Policies for identifying, measuring, and monitoring this type of risk are documented in the *"Policies and procedures for liquidity risk management"*.

e) Operating risk

Operating risk management seeks to reduce the potential loss due to failures or deficiencies in internal controls, errors in processing and storing operations or in the transmission of information, as well as for adverse administrative and judicial resolutions, frauds or thefts. In addition to considering the operating risk corresponding to new products, start-up of activities, start-up of processes or systems prior to their launching or implementation.

There is an operating risk tolerance level for the analysis and follow-up on events of loss on operating risk. Toward that end, the amount is determined of the loss arising from individual operating risk events or the sum of losses caused by the repetition of the same event.

Operating risk events are recorded in the respective database and they are included in institutional statistics. The occurrence of events that exceed the operating risk tolerance level implies reporting to the Chief Executive Officer, the Assistant General Director of Risks Management (DGA) and the DGA in which the event of loss was reported, as well as the personnel indicated in the Policies and Procedures for Operating Risk management, as well as the Board of Directors, through an operating risk exposure report at their next meeting. The Risk Management Administrative Office asks the responsible areas for additional information on the mitigation actions that have been implemented and are in the process and, if applicable, it may suggest additional actions or mitigation plans.

In addition, there is a metric inside the desired risk profile for following-up on the amount accrued of losses in the year, due to operating risk events.

Methodologies, Policies, and Procedures and Systems or Applications

i) Methodologies for Operating Risk Management. These methodologies allow for estimating the impacts of operating contingencies, the amount of potential losses arising from unfavorable legal or administrative rulings handed down, levels of tolerance of the desired risk profile and operating risk tolerance, as well as the internal operating risk rating, and the classification of information security vulnerabilities.

A Business Impact Analysis (BIA) is performed on operating contingencies, which enables the Institution to determine the criticality thread of subprocesses to define if they should be considered in the Going Concern Plan of Banobras, as well as for estimating the qualitative and quantitative impacts of the operating contingencies associated therewith. Those subprocesses related to the Interbank Electronic Payment System (SPEI-Spanish acronym) of the Bank of Mexico must be included in this analysis. The criticality thread level is defined for each subprocess, whereas the relevance is defined based on the type of impact (financial, regulatory, social/reputational, legal), both of which are based on their own experience.

With regard to the legal risk, Banobras has legal matter collaboration portal, operated by the Associate Juridical Office, and it submits the information to the Operating Risks and Capital Requirements Management, which is required for generating and sending the *"Overall Court Proceedings Portfolio"* regulatory report to the National Banking and Securities Commission. The different legal matters, as well as their follow-up are stored in that database.

In addition, the risk area together with the supporting area in legal risk matters estimate the potential losses associated with possible unfavorable administrative and judicial resolutions handed down in connection with the operations carried out by Banobras.

Finally, an internal operating risk rating is defined that is a self-evaluation measure based on a combination of operating risk events that occurred and the best practices for the report thereof.

Relying on the Common Vulnerability Scoring System (CVSS) was proposed with regard to the quantification of technological vulnerabilities, which sets out metrics for the communication of characteristics, such as criticality, probability of occurrence, and impact of vulnerabilities that affect elements of the information technology security environment.

ii) Policies and procedures for operating risk management: They are approved by the CAIR and they establish the framework for managing this type of risks in Banobras, in addition to the following:

- Procedure for identifying and following-up on risks, as well as classifying them in accordance with their frequency and potential economic impact.

- Identification and following-up on key operating risk indicators (KRI), which are statistics and parameters that measure exposure and evolution of an operating risk identified, and having the capacity to alert in dealing with possible changes in exposure thereto. The materialization of operating risk events and consequently the possible associated risks is mitigated by monitoring every KRI.

- The Bank performs internal legal audits at least annually, through an area independent from the Juridical DGA to avoid a possible conflict of interest.

In addition, Banobras has the following elements for managing operating risks:

- Structure and information system for recording operating risk incidents, which considers the provisions of Exhibit 12 A of the General Provisions applicable to Credit Institutions.

- The system is designed for Risk Coordinators by Department or personnel of each Assistant General Office to record those events that imply any effect on operating risk to which the Institution is exposed, which have given rise to either a real or estimated loss, or no loss has been generated.

f) Unquantifiable risks

Unquantifiable risks are those arising from unforeseen events for which a statistical base cannot be drawn up that allows for measuring potential losses. These risks are the strategic risk, the business risk, and the reputational risk.

There are models for identifying and following up on these risks in order to manage them.

Methodologies, Policies, and Procedures and Systems or Applications

i) Methodologies for non-quantifiable risk management. The elements considered for strategic and business risk management are documented in this methodology. It further incorporates a follow-up indicator for reputational risk.

ii) Policies and procedures for non-quantifiable risk management: They are approved by the CAIR and they establish the framework for managing this type of risks in Banobras, in addition to the Procedure for identifying, recording, mitigating, and following up on non-quantifiable risks.

g) Capital requirements

Consistent with the provisions of the Basel Capital Accords and as part of the risk management process, the regulatory framework with regard to capitalization has been implemented at Banobras to promote the soundness and stability of the Institution. Toward that end, the capital requirement associated with credit, market, and operating risks is determined in conformity with the Provisions every month.

Banobras uses the Standard Method for the credit risk capital requirement, which is referred to in Section Two of Chapter III of Title One Bis of the Provisions. The Basic Indicator Method is used with regard to the capital requirement associated with Operating Risk exposure, also described in the Provisions.

Methodologies, Policies, and Procedures and Systems or Applications

Policies and procedures for determining the capitalization requirements of Banobras: The policies and procedures are documented for determining the capitalization requirements of Banobras, as well as the process for compiling and sending the respective forms to Banco de Mexico.

For the calculation of the credit risk requirement, the Institution uses the ratings furnished by the following rating agencies: Standard & Poor's, Fitch Ratings, Moody's, HR Ratings de Mexico, Verum, A.M. Best Rating Services and DBRS. Those rating institutions are used for all credit operations, credit lines, Timely Payment of Guaranties, derivatives, and securities trading of the Institution, in accordance with the Standard Method. It is important to note that Banobras does not allocate public issue ratings to comparable assets.

Banobras uses offsetting mechanisms for derivatives trading whey they are carried out with the same counterparty, provided that those offsets are set forth in the framework agreement.

The results of the capital requirement are reported monthly to the CAIR and quarterly to the Board of Directors, through the Quarterly Report on risk exposure assumed by Banobras.

As part of the process for the determination of capitalization requirements the Risk area uses a system from which RC forms are generated with their respective validation, which are submitted to the Banco de Mexico.

h) Money Laundering (ML) and Terrorism Financing (FT) Risks

The General Provisions (DCG-Spanish acronym) referred to in Article 115 of the Credit Institutions Law consider that credit institutions use a Risk Based Approach (EBR) for evaluating Money laundering (ML) and Terrorism Financing (FT) risks and applying the mitigators thereto, in order to prevent them from being used for carrying out operations with proceeds of illicit origin and financing terrorism.

The EBR includes the risk evaluation of the client, which is used for determining the degree of risk in order to add coherence between this model and the EBR.

i) Methodologies, Policies, and Procedures and Systems or Applications

Methodology for client risk evaluation: The risk evaluation model is documented in this methodology for determining the degree of risk of clients, through the following risk factor identification processes, Risk measurement, and Customer rating system.

The degree of risk allocated to each client determines the activation of actions documented in the Client Identification Policies that are contained in the *"Policies and Procedures Manual for Money Laundering and Financing Terrorism Prevention"*.

QUANTITATIVE INFORMATION[1]

a) Credit risk

The Amount Exposed of the portfolio presented in the following chart considers the Portfolio of States, Municipalities and Agencies, Public Trusts, and Decentralized Federal Government Agency, State-Owned Productive Companies, Projects with Own Source of Payment, Companies and Counterparty Risk

Quarter	4th 2019	3rd 2019	2nd 2019	1st 2019	4th 2018
Amount exposed in nominal term[1/]	516,185.3	506,900.3	491,687.8	492,611.8	503,565.8
Amount exposed in capital requirement term[2/]	19,381.1	19,210.3	18,806.8	18,879.5	19,330.9
Overall Consumption Limit[2/]	83.4%	82.6%	80.9%	81.2%	83.1%

Amounts in millions of Mexican pesos.
1/ It does not include exposure of Mexico City, since it is the Federal Government's portfolio (it amounts to 22 billion 782.6 million Mexican pesos in nominal terms for the fourth quarter of 2019, and it amounts to 20 billion 965.6 million Mexican pesos in nominal terms for the third quarter of 2019). It includes counterparty risk, which amounts to 107 billion 239.5 million Mexican pesos in nominal terms at the fourth quarter of 2019, and 106 billion 969.8 million Mexican pesos in the prior quarter).
2/ Exposure and consumption of limits stated in terms of capital requirement were approved by the Board of Directors, pursuant to resolution 132/2017 dated December 5, 2017.

The follow-up of credit risk exposure associated with operations formalized and authorized by the Bank, as well as the definition of overall and specific limits is carried out in capital requirement terms[2].

However, the foregoing continues to report credit exposure in nominal terms, and the equivalence is calculated of the overall limit and specific exposure limits in nominal terms, in conformity with what is set out in the "Methodology for the determination of limits and metrics of the desired risk exposure to credit risk profile" Document. It is important to note to note that the limits reported in nominal terms are only of an indicative nature, in order to offer a reference to the Business areas in the estimate of the placement potential and follow-up on exposure.

The average exposure in nominal terms from the third quarter of 2019 to the fourth quarter of 2019 amounts to 533 billion 416.9 million Mexican pesos, considering the exposure of Mexico City. The exposure of Mexico City is not considered, insofar as it is an Exempted Portfolio. The average exposure in nominal terms from the third quarter of 2019 to the fourth quarter of 2019 would amount to 511 billion 542.8 million Mexican pesos.

In the fourth quarter of 2019, a 0.9% increase was recorded in the consumption of the overall limit in terms of capital requirement with regard to the third quarter of 2019, by placing at 83.4% (82.6% in the prior quarter). Moreover, an increase was recorded in formalized exposure in nominal terms amounting to 9 billion 284.9 million Mexican pesos, with regard to the prior quarter. The changes are primarily due to the increase in formalized exposure with States and Municipalities and with the Investment Portfolio, as well as the decrease in formalized exposure with Own Source Payment and Companies, Agencies, Funding to Banks and Financial and Non-financial Counterparties, in addition to portfolio movements and exchange rate volatility.

In addition, the average exposure between 2018 closing and 2019 closing amounts to 532 billion 275.3 million Mexican pesos, considering the exposure of Mexico City. If the exposure of Mexico City is not considered, insofar as it is an Exempted Portfolio, the average exposure from 2018 closing and at 2019 closing would amount to 509 billion 875.6 million Mexican pesos.

[1] Except as indicated otherwise and in conformity with the provisions of the last paragraph of Article 57 of the General Provisions Applicable to Lending Institutions, all references in this section to basic capital or net capital corresponding to the amount at the closing of the fourth quarter of 2019 (December 2019).
[2] The calculation of the capital requirement presented in this section is carried out based on formalized and authorized exposure, and by making use of the criteria defined in the "Overall limit and specific exposure limits to credit risk" and "Methodology for the determination of limits and metrics of the desired risk exposure to credit risk profile" documents, authorized by the CAIR and, if applicable, by the Board of Directors.

At 2019 fiscal year end, a 0.3% increase was recorded in the consumption of the overall limit in terms of capital requirement with regard to the 2018 closing, and placed at 83.4% (83.1% of the prior year), due to pure credit projects granted to States and Municipalities, as well as Financial Guarantees to states, pure credit projects with Own Source of Financing, operations with Financial Brokers, movements of portfolio and exchange rate volatility.

Credit VaR

In order to have an overall perspective of the commercial credit portfolio risk, the Value at Credit Risk (VaR) is determined which allows for estimating the maximum potential loss of the portfolio that the Bank could face, due to the possible of the impairment of the creditworthiness of the portfolio, in a quarterly time interval with a 99% level of confidence.

The credit VaR is a risk measurement that is based on a Montecarlo simulation model, which depends on the probability of nonperformance of the borrowers of the portfolio, the severity of the loss, the exposed amount, rating levels, and transition matrixes.

The variation in the VaR of the loan portfolio of the fourth quarter of 2019 with regard to the third quarter of 2018 is -5.3% (-1,010.7 million Mexican pesos), explained by the update of the quarterly transition matrix that was less stressed.

Item	4th Quarter 19	3rd Quarter 19	2nd Quarter 19	1st Quarter 19	4th Quarter 18	μ*	σ*
Expected Loss	10,947.9	10,971.1	11,070.4	10,826.0	11,576.2	11,078.3	291.6
Unexpected loss	7,027.0	7,476.9	6,944.2	6,816.9	7,409.4	7,134.9	292.2
Credit VaR	17,974.9	18,448.0	18,014.6	17,643.0	18,985.6	18,213.2	518.0
Net capital a)	63,073.4	60,782.8	58,704.4	56,141.1	52,203.0	58,181.0	4,209.4
Preventive reserves	10,358.9	10,410.2	10,580.3	10,188.2	10,226.9	10,352.9	156.5
Portfolio exposed to credit risk b)	400,619.6	395,965.2	382,151.0	378,674.9	374,137.7	386,309.7	11,420.9
Credit VaR/Net capital	28.5%	30.4%	30.7%	31.4%	36.4%	31.5%	3.0%
Credit VaR/Portfolio exposed to risk	4.5%	4.7%	4.7%	4.7%	5.1%	4.7%	0.2%
VaR of Financial Instruments	6.8	10.7	4.1	2.0	1.6	5.1	3.8
Exposure of Financial Instruments	412,303.9	400,413.4	389,373.1	384,736.0	387,733.8	394,912.0	11,385.3
VaR of Fin. Inst./Net capital	0.0108%	0.0176%	0.0070%	0.0036%	0.0031%	0.0084%	0.0060%
VaR of Fin. Inst./Exposure of Fin. Inst.	0.0017%	0.0027%	0.0011%	0.0005%	0.0004%	0.0013%	0.0009%

* Metrics corresponding to the last 5 quarters. Amounts in millions of Mexican pesos
a) It considers the net capital of the prior quarter by legal operation of the CNBV, by updating the information validated at the date of this report. b) It is defined as portfolio exposed to risk" or "portfolio exposed to credit risk" to the GEM portfolio, Private, financial brokers and portfolio reserved at 0.5% without including FONADIN, exempted portfolio, nor credits to former employees.

During the last five quarters, the average credit VaR is placed at 18 billion 213.2 million Mexican pesos, and it has a standard departure of 518.0 million Mexican pesos, whereas the median in the VaR of financial instruments is 5.1 million Mexican pesos with a standard departure of 3.8 million Mexican pesos. Moreover, the credit VaR as a percentage of net capital has an average of 31.5% and a 3.0% standard departure for the same period. For financial instruments, the median of the percentage with regard to net capital is 0.0084% with a standard departure of 0.0060%.

With regard to the distribution of the portfolio exposed to credit risk (400 billion 619.6 million Mexican pesos) by geographic region, at December 31, 2019, the Central region represents 45.9%, the South region 29.2%, and the North region 24.9%. However, the North zone presents the lowest diversification with a 9.1 ratio vs. 30.0 of the Central region. Moreover, the credit VaR ratio of Banobras with regard to the portfolio was placed at 4.5% in the fourth quarter of 2019.

VaR and loan portfolio by geographic region *

	Balance of portfolio exposed to credit risk						Marginal VaR at 99%		
Region	**Dec-19**	**%**	**Sept-19**	**%**	**Dec-18**	**%**	**Dec-19**	**Sept-19**	**Dec-18**
North	99,643.5	24.9%	101,956.80	25.70%	88,254.1	23.6%	4,498.3	4,606.3	5,098.9
Central	183,839.2	45.9%	181,578.60	45.90%	174,538.9	46.7%	9,075.4	9,087.8	9,535.7
South	117,136.9	29.2%	112,429.90	28.40%	111,344.7	29.8%	8,771.2	9,304.3	10,271.7
Total	400,619.6	100.00%	395,965.20	100.00%	374,137.7	100.0%	$17,974.9	$18,448.0	$18,985.6

*/The sums and some amounts can vary due to rounding-off effects. Amounts in millions of Mexican pesos.
The VaR of the loan portfolio is presented for the "total" line.

At December 31, 2019, the net capital of the Institution covers simulated losses including extreme losses, in accordance with the sensitivity tests of the credit VaR performed under distinct extreme scenarios.

Loan portfolio diversification

The five main borrowers have a portfolio amounting to 96 billion 068.9 million Mexican pesos (24.0% of the portfolio subject to credit risk), and it represents 1.5 times the basic capital at September.

At December 2019, 78.1% of the balance of the portfolio exposed to credit risk are concentrated in 44 borrowers out of a total of 492. This is equivalent to 5.0 times the net capital of Banobras at September, whereas at the closing of the prior year, 78.9% of the balance of the commercial credit portfolio was concentrated in 48 borrowers out of a total of 530, equivalent to 5.5 times the corresponding capital.

No borrower exceeds the concentration limits of the CNBV. Moreover, the three main borrowers subject to concentration limits do not exceed 100% of the basic capital of the Institution, and none of the borrowers subject to the 100% limit of the basic capital exceeds the threshold.

Portfolio Credit Risk

The loan portfolio of Banobras at December 31, 2019 amounted to 483 billion 563.4 million Mexican pesos. 45.4% corresponded to loans charged to state and municipal governments and their agencies, 31.7% to private credits, and 4.8% to financial entities. The total portfolio presents a 5.5% change against what was reported in December 2018 (458 billion 303.3 million Mexican pesos).

Main characteristics of the loan portfolio by risk group

Item	Balance Dec19	Balance Dec18	Variation	Reserve Dec19	Reserve Dec18	Variation	VaR Dec19
State and Municipal Governments	**219,366.3**	**202,465.7**	**16,900.6**	**1,817.4**	**1,621.8**	**195.6**	**7,358.0**
Performing	219,366.3	202,465.7	16,900.6	1,817.4	1,621.8	195.6	
Nonperforming	-	-	-	-	-	-	
Impaired	27.8	34.8	-7.0	5.2	5.9	-0.7	
Private	**153,229.7**	**145,646.8**	**7,582.9**	**5,298.0**	**5,272.6**	**25.4**	**11,831.6**
Performing	150,813.5	143,345.8	7,467.7	3,023.3	3,129.7	-106.4	
Nonperforming	2,416.3	2,300.9	115.4	2,274.8	2,142.9	131.9	
Impaired	4,812.3	5,060.9	-248.6	3,672.9	3,543.0	129.9	
Financial Brokers	**23,199.3**	**22,868.0**	**331.3**	**191.9**	**212.5**	**-20.6**	**1,182.2**
Performing	23,199.3	22,868.0	331.3	191.9	212.5	-20.6	
Nonperforming	-	-	-	-	-	-	
Impaired	-	-	-	-	-	-	
APFPYFP	**4,824.3**	**3,157.3**	**1,667.0**	**24.2**	**15.9**	**8.3**	**302.6**
Total concentrated subject to risk	***400,619.6***	***374,137.7***	**26,481.9**	***7,331.6***	***7,122.8***	**208.8**	**17,974.9**
Exempted GF portfolio	**54,548.0**	**55,713.5**	**-1,165.5**	**-**	**-**	**-**	
Fonadin	**28,232.1**	**28,322.2**	**-90.1**	**141.2**	**141.6**	**-0.4**	
Former employees	**163.7**	**129.9**	**33.8**	**40.3**	**38.5**	**1.8**	
Performing	107.2	79.9	27.3	1.3	0.8	0.5	
Nonperforming	56.5	50.0	6.5	39.0	37.7	1.3	
Impaired	47.6	43.4	4.2	38.7	37.3	1.4	
Total	***483,563.4***	***458,303.3***	***25,260.1***	***7,513.0***	***7,302.9***	***210.1***	

During the fourth quarter of 2019, the monthly average of the portfolio was placed at 479 billion 714.6 million Mexican pesos, whereas the average of reserves was placed at 7 billion 343.1 million Mexican pesos.

	Average Balance December 2019	Average Reserves December 2019
States and Municipalities or with their guarantee	201,574.6	1,473.9
Own source of payment	144,481.8	3,345.0
Credits to the Federal Government or with their guarantee	63,296.5	51.7
Contingent credits: Others	35,364.4	217.1
Second tier credits: Full-Service Banking	22,636.9	164.3
Second tier credits: Others	557.2	1.3
Decentralized or Regulatory Agencies	7,865.2	83.8
Bank agent credits	510.0	-
Commercial Credits: Medium-sized companies	2,110.9	1,960.9
Contingent credits: Guarantees by endorsement	1,151.9	4.8
Housing credit*	154.9	31.6
Consumer credit*	10.3	8.7
Total:	**479,714.6**	**7,343.1**

Amounts in millions of Mexican pesos. */ They correspond to the former employee portfolio

In accordance with the distribution of the remaining term of the portfolio, 56.1% matures in a term between 10 and 20 years, are shown below:

Distribution of balances by remaining term of the portfolio at December 2019

	Remaining term in months							Total
	[0 - 3]	(3 - 6]	(6 - 12]	(12 - 60]	(60 - 120]	(120 - 240]	> 240	
States and Municipalities or with their guarantee	5	15	34	1,560	8,715	116,354	75,791	**202,475**
Decentralized or Regulatory Agencies	1,939	-	30	1,357	1,498	3,919	-	**8,742**
Own source of payment	-	-	-	10,924	22,267	96,140	15,197	**144,528**
Commercial Credits: Medium-sized companies	2,064	-	-	-	-	-	-	**2,064**
Contingent credits	36,877	-	-	-	-	-	-	**36,877**
Contingent credits / Guarantees by endorsement	1,132	-	-	-	-	-	-	**1,132**
Second tier credits: Full-Service Banking	-	-	-	211	1,381	21,005	-	**22,598**
Second tier credits: Others	-	-	-	77	525	-	-	**601**
Credits to the Federal Government or with their guarantee	-	-	7,832	1,024	12,578	33,383	9,067	**63,884**
Bank agent credits	-	-	12	4	-	482	-	**498**
Consumer credit	9	-	-	-	-	-	-	**9**
Housing credit	83	1	4	21	23	24	-	**155**
Totals:	**42,109**	**23**	**7,916**	**15,511**	**56,777**	**272,129**	**89,099**	**483,563**
Percentage of the total	**8.7%**	**0.0%**	**1.6%**	**3.2%**	**11.7%**	**56.3%**	**18.4%**	**100.0%**

Amounts in millions of Mexican pesos.

The distribution of reserves by risk level is shown in the following chart:

Comparison of the distribution of reserves* by risk level

Risk level	Preventive				
	Dec-19	%	Dec-18	%	Δ
A-1	1,385.8	18.4	1,500.6	20.5	***-114.9***
A-2	690.0	9.2	263.0	3.6	***427.0***
B-1	460.8	6.1	317.1	4.3	***143.7***
B-2	11.0	0.1	37.7	0.5	***-26.7***
B-3	512.4	6.8	540.2	7.4	***-27.9***
C-1	91.2	1.2	733.4	10.0	***-642.2***
C-2	645.0	8.6	324.6	4.4	***320.5***
D	134.3	1.8	217.7	3.0	***-83.4***
E	3,582.5	47.7	3,368.5	46.1	***214.0***
Total	**7,513.0**	**100.0**	**7,302.9**	**100.0**	***210.1***

Amounts in millions of pesos. */ It neither includes induced credit nor guaranteed refinancing.

The nonperforming commercial portfolio amounts to 2 billion 416.3 million Mexican pesos, and it represents 0.5% of the total portfolio of the Bank, as well as 0.6% of the risk exposed portfolio. During the fourth quarter of 2019, the nonperforming commercial portfolio increased 115.4 million Mexican pesos with regard to the prior year. Taking into account the nonperforming portfolio of former employees, the nonperforming portfolio amounts to 2 billion 472.8 million Mexican pesos at the closing of the fourth quarter of 2019. With regard to the time that credits remain in the nonperforming portfolio, the 2000-2019 historical average is placed at 17.0 months, whereas it is 39.4% when measured as a proportion of the time in the portfolio.

Those commercial, consumer, and housing loans with a "D" and "E" risk are identified as impaired portfolio. It amounts to 4 billion 887.7 million Mexican pesos at the December 2019 closing.

It can be appreciated that the distribution of the nonperforming portfolio by geographic region is mainly concentrated in the South region with a 72.5% ratio with regard the nonperforming portfolio. It is also observed that 55.9% of the current reserves of the South region is in an impaired state.

Loan portfolio by geographic region: performing, nonperforming, and impaired at December 2019

Region	Total Balance	Performing			Nonperforming			Impaired			% balance Past Due/Outstanding
		Total	Reserve	% Reserve/Balance	Total	Reserve	% Reserve/Balance	Total	Reserve	% Reserve/Balance	
Central	266,765.6	266,095.3	2,060.3	0.8	670.3	513.4	76.6	663.2	513.3	77.4	0.25
North	99,652.4	99,643.7	834.8	0.8	8.7	7.3	83.9	207.5	122.5	59.0	0.01
South	117,145.3	115,351.6	2,304.1	2.0	1,793.7	1,793.0	100.0	4,017.0	3,081.1	76.7	1.56
	483,563.4	481,090.6	5,199.3	1.1	2,472.8	2,313.7	93.6	4,887.7	3,716.8	76.0	0.51

Amounts in millions of Mexican pesos.* The sums and some amounts can vary due to rounding-off effects.

The states with more significant amounts of impaired portfolio and nonperforming of the last two quarters are presented below:

Impaired portfolio by State without former employees

State	December 2019			December 2018		
	Total	Nonperforming	Preventive	Total	Nonperforming	Preventive
Oaxaca	2,160.2	-	1,278.2	2,261.2	-	1,023.3
Veracruz	1,786.9	1,786.9	1,786.9	1,861.4	1,861.4	1,861.4
Others	893.1	629.4	613.1	973.1	439.5	664.2
Total	**4,840.1**	**2,416.3**	**3,678.1**	**5,095.7**	**2,300.9**	**3,548.9**

Amounts in millions of Mexican pesos

At December 2019, the total states with an impaired portfolio is 10 (without considering the former employee portfolio), in comparison with 10 of the prior year.

Nonperforming portfolio by State without former employees

State	December 2019		December 2018	
	Total	Preventive	Total	Preventive
Veracruz	1,786.9	1,786.9	1,861.4	1,861.4
Others	629.4	487.9	439.5	281.5
Total	**2,416.3**	2,274.8	**2,300.9**	2,142.9.

Amounts in millions of Mexican pesos

At the fourth quarter of 2019, there were not any credit or bad debt write-offs and the borrowers of 2018 were maintained in the nonperforming portfolio.

The changes in balances and provisions of impaired loans presented in their currency of origin allow for isolating the effect of the type of change of the variation of the risk level of this portfolio.

Portfolio	December 2019			December 2018			Δ Balance	Δ Reserve
	Opening balance	Total	Reserve	Opening balance	Total	Reserve		
Mexican Pesos	8,262.6	2,795.6	1,775.1	8,297.7	2,946.5	1,557.8	-150.9	217.3
U.S.	113.8	108.4	100.9	113.8	109.4	101.3	-1.0	-0.4

Amounts in millions of units of the original currency

Main financing for own account

At December 31, 2019, the sum of the three main borrowers subject to 100% of the basic capital amounts to 31 billion 045.2 million Mexican pesos, which accounts for 50.3% of the basic capital.

Moreover, the Institution maintains 21 financings granted in the amount of 307 billion 932.2 million Mexican pesos that exceed 10% of the basic capital and that represent 5.0 times the basic capital of the institution.

Main financing subject to common risk diversification limits

Under no circumstances has any borrower subject to the 100% concentration limit of the basic capital exceeded that limit.

At the fourth quarter of 2019, Banobras had borrowers classified in 13 economic groups and 3 trusts in which there are 41 companies that represent a common risk due to equity or business ties, which aggregately accounted for a concentration equivalent to 77.2% of the basic capital.

Investments in securities

Investments in securities other than government securities that implied a credit risk, which represented more than 5% of the net capital of Banobras at December 2019-month end, are indicated below:

Issuer	Par Value (Millions of pesos)	% With regard to Net Capital
Scotiabank	7,380	11.16%
CFE	4,490	6.79%
NAFIN	4,162	6.30%

Net Capital considered amounts to 66 billion 115 million Mexican pesos.

Indebtedness limits are assigned for financial brokers based on financial information, and controls and on-line systems have been established to limit counterparty credit risk. At December 2019-month end, the institution does not have positions of securities market instruments that present impairment in the credit rating, with regard to the prior quarter reported.

b) Market risk

Market value at risk (VaR) at Banobras is calculated by applying the Conditional VaR methodology (CVaR), with a time horizon of one business day, a window of 500 data and a 97% confidence level.

The calculations of CVaR are obtained for each one of the operating desks (Money Market, Currencies, and Derivative Desks), which consolidate the position of Banobras.

The CVaR of Banobras by operating desk, quarter closing, and average of the period, as well as the percentage that represents Net Capital is presented in the following chart:

Portfolio	4th Quarter 2019					3rd Quarter 2019				
	Dec/19	% of Net Capital	Average	% of Net Capital	σ	Sept/19	% of Net Capital	Average	% of Net Capital	σ
Banobras	185.95	0.29%	184.99	0.29%	2.08	181.01	0.29%	179.60	0.30%	2.91
Money Market	99.06	0.15%	97.80	0.15%	1.62	98.42	0.16%	95.52	0.16%	2.32
Exchange Desk	30.80	0.05%	27.54	0.04%	1.61	25.47	0.04%	25.87	0.04%	0.95
Derivatives Trading	8.09	0.01%	7.99	0.01%	0.12	8.02	0.01%	7.88	0.01%	0.20
Structural Derivatives Trading	118.32	0.18%	122.90	0.19%	2.36	121.76	0.20%	128.50	0.21%	4.36
Derivatives Trading Rec.	-	-	-	-	-	-	-	-	-	-

In comparison with the same quarter of 2018, the CVaR estimates present the following behavior:

Portfolio	4th Quarter 2019					4th Quarter 2018				
	Dec/19	% of Net Capital	Average	% of Net Capital	σ	Dec/18	% of Net Capital	Average	% of Net Capital	σ
Banobras	185.95	0.29%	184.99	0.29%	2.08	197.46	0.37%	235.99	0.45%	36.20
Money Market	99.06	0.15%	97.80	0.15%	1.62	128.90	0.24%	151.76	0.29%	26.78
Exchange Desk	30.80	0.05%	27.54	0.04%	1.61	18.95	0.04%	15.82	0.03%	1.52
Derivatives Trading	8.09	0.01%	7.99	0.01%	0.12	5.94	0.01%	8.51	0.02%	1.27
Structural Derivatives Trading	118.32	0.18%	122.90	0.19%	2.36	134.92	0.25%	159.57	0.31%	18.73
Derivatives Trading Rec.	-	-	-	-	-	7.44	0.01%	1.21	0.00%	2.63

Derivative Financial Instruments

Prior to recording any derivative hedging contract, the Associate General Directorate of Risk Management evaluates the effectiveness of the derivatives to hedge the risk of underlying positions. Prior to entering into any derivatives trading contract, the market risk is estimated for overseeing the corresponding consumption limit and further validate the counterparty risk of the operation.

The follow-up on hedge effectiveness is reported monthly to the Associate General Directorate of Finance and quarterly to the Board of Directors and Comprehensive Risk Management Committee, by carrying out, the corresponding efficiency analysis toward that end, where the hedge is considered acceptable when the efficiency ratio is at a previously defined interval (between 0.80 and 1.25).

The calculation of CVaR is performed for trading derivatives, which is reported and monitored. The valuation techniques set out for current instruments correspond to generally accepted methods, which are approved by the CAIR.

The calculation of the liquidity gap includes credit flows, funding, and derivative instruments that hedge the above position, among other parameters.

Credit Risk of financial instruments, including derivatives.

At the 2019 fourth quarter closing, an increase was observed in the amount exposed with Counterparties in nominal terms in the amount of 269.6 million Mexican pesos with regard to the third quarter of 2019.

The foregoing is explained by the increase in the formalized exposure of the Investment Portfolio amounting to 845.3 million Mexican pesos and in Brokerage Firms amounting to 89.2 million Mexican pesos, as well as by the decrease in the formalized exposure with financial and non-financial counterparties amounting to 664.9 million Mexican pesos.

Counterparty credit exposure at December 31, 2019	Exposure in nominal term		
	Exposure at December-2019 closing (A)	Exposure at September-2019 closing (B)	Change with regard to prior quarter [(A)/(B)-1]
Non-financial counterparty	5,978.9	7,311.4	-18.2%
Non-financial counterparty	75,035.6	74,368.0	0.9%
Domestic Banks	58,185.9	56,451.4	3.1%
Foreign Banks	16,849.7	17,916.6	-6.0%
Investment Portfolio	26,135.7	25,290.5	3.3%
Brokerage Firms	89.2	-	NA
Total	**107,239.5**	**106,969.8**	**0.3%**

Amounts in millions of Mexican pesos.

At 2019 closing, a decrease was observed in the amount exposed with Financial Counterparties, Non-financial counterparties, Brokerage Firms, and Investment Portfolio amounting to 1 billion 319.7 million Mexican pesos with regard to the 2018 closing. The decrease in the exposure is due to the decrease in the formalized exposure with financial and non-financial counterparties amounting to 6 billion 191.3 million Mexican pesos, as well as the acquisition of held-to-maturity securities amounting to 4 billion 782.4 million Mexican pesos, mainly with full service banking, the government of Mexico City and trusts, and the increase in exposure with Brokerage Firms amounting to 89.2 million Mexican pesos.

Counterparty credit exposure at December 31, 2019	Exposure in nominal term		
	Exposure at December-2019 closing (A)	Exposure at December-2018 closing (B)	Change with regard to prior quarter [(A)/(B)-1]
Non-financial counterparty	5,978.9	7,374.3	-18.9%
Non-financial counterparty	75,035.6	79,831.5	-6.0%
Domestic Banks	58,185.9	61,244.1	-5.0%
Foreign Banks	16,849.7	18,587.4	-9.3%
Investment Portfolio	26,135.7	21,353.3	22.4%
Brokerage Firms	89.2	-	NA
Total	**107,239.5**	**108,559.1**	**-1.2%**

Amounts in millions of pesos.

For December 31, 2019, the calculation of CVA shows a total exposure to credit risk amounting to e167.17 million pesos, which mainly arises from non-financial counterparties.

CVA (Mexican Pesos)	December 2019				September 2019			
	Derivatives	Money Desk	PIDV	PICV	Derivatives	Money Desk	PIDV	PICV
Non-Financial Counterparties	1.24	0.70	1.50	1.14	1.35	0.86	0.02	1.23
Non-Financial Counterparties	54.14	3.18	104.89	0.39	78.93	4.41	107.83	0.50

CVA (Mexican Pesos)	December 2019				December 2018			
	Derivatives	Money Desk	PIDV	PICV	Derivatives	Money Desk	PIDV	PICV
Non-Financial Counterparties	1.24	0.70	1.50	1.14	1.51	0.16	0.05	0.61
Non-Financial Counterparties	54.14	3.18	104.89	0.39	1.53	32.35	136.94	0.60

The calculation was restated in accordance with both domestic (D) and international (I) rating matrixes.
Amounts in millions of Mexican pesos

At December closing, the guarantees received for cash derivative financial instruments presented a 0.67% increase with regard to the prior quarter. It is estimated that the impact on the amount of collateral or security interests that the Institution would have to furnish in the event that its credit rating should go down one notch is 0 million Mexican pesos, based on the calculation of the cost of variations in the margin call ratings. At the quarter end, the derivative instruments portfolio of the Institution consists of 71.77% in hedge trading and 28.23% in trading operations.

The creditworthiness evaluation of counterparties, prior to carrying out the operations, is considered in the market risk policies and procedures, which include the operating framework for money desks. This framework sets out that Banobras can trade with governmental securities, securities issued by development banking, securities issued by private banks that have an AAA credit rating on a local scale, state-owned productive companies, and securities issued by other counterparties that are held to maturity.

At December 2019 closing, the operating Framework conditions are met for fixed rate and variable rate positions, as well as the position limits established, except for 0.38% of the total amount invested, which received a 2 notch decrease.

Derivative collateral management

Banobras currently has current derivatives trading portfolios with 53 counterparties, of which 6 financial counterparties have a contract that allows for trading collateral.

c) Liquidity risk

Liquidity risk management allows for identifying funding concentration risks to which Banobras is exposed. Funding operations at terms exceeding 30 days at December 2019 decreased 19.84%, with regard to the closing of the immediately preceding quarter and decreased 4.27%, in comparison with the prior year end.

At December 2019 closing, the potential loss on early liquidation of the money market credit position decreased 2.34%, in comparison with the third quarter of 2019. It decreases 17.5% with regard to the prior year end.

The flow projection of risk positions is carried out based on the implied market rates, and the algebraic sum is carried out between credit and borrowing positions to know the liquidity shortage or surplus That projection is carried out on loan portfolio positions, treasury positions, interbank loans, and derivative financial instruments.

By applying a stress scenario to interest rates, the term repricing gap of up to one month at December 2019 closing shows a probable loss amounting to 1.39 million Mexican pesos, lower than 0.35 million Mexican pesos, with regard to that projected for September 2019.

d) Asset and Liability Management (ALM)

Banobras presents a 0.40% decrease in the Economic Value of Capital in the quarter, due primarily to the decrease in stockholders' equity. The Economic Value of capital increased 11.9% in the year, due mainly to the increase in positions in the Balance sheet and the decrease in rates during the year. Banco de Mexico decreased the benchmark rate to 7.25% during the year, due to the stabilization of inflation and little economic growth. Moreover, at December month end, Stockholders' Equity presented a 1.35% increase with regard to September 2019, and 15% with regard to the closing of the prior year.

It is important to note that the loan portfolio, guarantees of timely payment (GTP), as well as the funding and risk mitigation structure through OTC derivatives, are the elements that have the highest impact on the financial margin and risk of the Balance Sheet of Banobras. OTC derivatives are specifically highlighted by the Extinguishing Cross Currency Swap that has an associated contingency due to its extinction clause, which is currently recognized at an accounting level, and it is valued through a methodology approved by the CAIR.

Based on the interest rate risk management methodology of the balance sheet and liquidity risk, the Economic Value of Capital was calculated with regard to stockholders' equity at December 2019-month end, which decreased 3.06% with regard to September 2019, and it decreased 4.86% with regard to December 2018.

The Economic Value of Capital considers an adjustment for credit risk, due to the expected loss of economic value of the portfolio, derivatives, and negotiable instruments that represented 8.55% this quarter, with regard to the economic value of capital, that is, it decreased 0.38% in the quarter and 1.9% with regard to December 2018. The decrease in the proportion is explained mainly by the increase in the economic value, due to the decrease in rates. On the other hand, the expected loss of economic value of the portfolio with regard to its economic value, that is, PEc/VEc represents 1.88%, in comparison with 1.96% of the prior quarter, and 2.20% of the prior year. That expected loss considers the estimate of credit risk in each one of the flows receivable from the portfolio at present value.

To know the sensitivity of the balance sheet to movements in interest rates, a 30% unfavorable movement was simulated in interest rates, with which a potential 6% unrealized loss was estimated in the Economic Value of Capital, that is, 2.06% more than the prior quarter and 3.23% less than at December 2018-month end. The foregoing indicates that given the balance sheet of the date in question, a 30% unfavorable movement at a level of rates would generate a 6% unrealized loss with regard to future cash flows receivable and deliverable at present value.

The DGAP (duration gap) at December 2019-month end was 0.08 years, less than that calculated of 0.09 in September 2019, and that calculated in December 2018 was 0.14 years. The decrease observed in the year is explained by the changes in the composition of the balance sheet. During the quarter, the recomposition of the portfolio and investments in securities favors the reduction of the DGAP of the Balance Sheet. The positive sign of the DGAP indicates that the Economic Value of Capital of Banobras is sensitive to increases in interest rates.

Descriptive statistics of the main credit and market risk exposure metrics are presented below:

	2019				2018	Statistics	
	Dec-19	Nov-19	Oct-19	Sept-19	Dec-18	Average	Standard departure
Sensitivity in EV of capital at 30%	-6.00%	-3.93%	-3.94%	-3.94%	-3.94%	-4.35%	0.92%
EL/EV of Capital	8.55%	8.71%	8.80%	8.93%	10.45%	9.05%	0.68%
EL_C/EV_C	1.88%	1.91%	1.91%	1.92%	2.20%	1.97%	0.14%
DGAP (years)	0.08	0.08	0.09	0.09	0.14	0.09	0.02

VE: Economic Value
PE: Expected Loss of the economic value of capital
PE_C: Expected Loss of the economic value of the Portfolio
VE_C: Economic Value of the Portfolio
DGAP: Duration of the Balance Sheet

e) Operating risk

During the fourth quarter of the year, 8 operating risk events were recorded of which there was no journal entry and, therefore, the operating risk tolerance level was not exceeded.

With regard to the estimate of the impact that would be generated by the materialization of identified operating risks, an expected loss would be generated in the amount of 20.0 million Mexican pesos, notwithstanding that the operating risk capital requirement is as follows:

Item	Dec-18	Sept-19	Dec-19
Capital Requirement	1,708.5	1,899.4	1,956.5
Number of times that the expected loss is covered	85.3	95.0	97.8

* Amounts in millions of Mexican pesos

f) Capital requirements

The amount of exposures corresponds to the amount presented in the Credit Risk section, since Banobras calculates the credit risk capital requirement under the Standard Method. For the calculation of the capital requirement, admissible financial collateral used amounts to:

Item	Dec-18	Sept-19	Dec-19
Zero Coupon Bonds	12,934.5	13,855.7	12,833.7

Amounts in millions of Mexican pesos

Positive fair value is presented in the following table, as well as netting profit, current and potential future exposure by type of counterparty, in accordance with the standard method for the capital requirement.

Item	Dec-18			Sept-19			Dec-19		
	Financial	Non-financial	Total	Financial	Non-financial	Total	Non-financial	Non-financial	Total
Positive fair value	21,278.6	752.1	22,030.7	18,566.0	5,402.4	23,968.5	18,186.0	4,575.0	22,761.0
Netting Profit	7,226.4	79.4	7,305.8	9,839.8	5.3	9,845.1	9,861.5	10.3	9,871.7
Collateral or Security Interests Maintained (Cash/Securities)	5,625.2	-	5,625.2	2,688.3	-	2,688.3	2,706.1	-	2,706.1
Current Exposure	14,052.2	672.7	14,724.9	8,726.2	5,397.1	14,123.4	8,324.5	4,564.7	12,889.2
Future Potential Exposure	136.1	9.1	145.2	306.3	-	306.3	225.7	-	225.7

Amounts in millions of Mexican pesos

Information for positions in shares

The reason for the position in shares of Banobras is as permanent investments on which it does not expect unrealized gains. This position is not listed publicly, and no amount thereof is recognized in the Basic Capital.

Item	Dec-18		Sept-19		Dec-19	
	Total	Capital req.	Total	Capital req.	Total	Capital req.
Equity investments (weighted at 100 percent)	-	-	-	-	-	-
Shares in complementary or auxiliary service companies in their management as referred to in Article 88 of the Credit Institutions Act (L.I.C.-Spanish acronym).	0.300	0.024	0.300	0.024	0.300	0.024
Equity investments in companies of Article 75 of the L.I.C. classified i:	-	-	-	-	-	-
Group X (weighted at 1250%)	-	-	-	-	-	-
Of subsections I and II, unlisted, as well as those listed and unlisted in subsection III, whose holdings neither give rise to debt capitalizations nor settlements of debts	-	-	-	-	-	-
Companies designated as "risk capital"[3]	35.705	10.794	35.705	10.794	35.705	10.794

Amounts in millions of Mexican pesos

[3] The investments made by Development Banking in companies designated as "risk capital", in accordance with their internal regulations, consider the following treatment:
50% of the value of the investment in the basic capital is decreased and a 22.23% capital requirement is applied to the other 50% of the value of the investment for general market risk and 8% for a specific risk, in accordance with what is set out in the Provisions.

Information related to securitization exposure

a) Qualitative information:

1. The type of risk assumed by the Institution consists of high credit quality paper, which must comply with the Operating Framework in effect (investment regime) and a minimum profitability requirement. As part of the follow-up on their positions, Banobras monitors a series of market metrics, liquidity, and counterparty every day, in order to reduce the risk assumed by the Institution, by minimizing exposure to possible nonperformances by the issuer.

   a. The possible loss due to early liquidation of those positions is monitored daily in the liquidity risk associated with securities in position.

   b. The processes implemented at the institution to oversee the changes in credit and market risks of exposure in securities related to a securitization is comprised of various risk metrics that include daily monitoring and periodic disclosure. The CVaR as well as stress scenarios and sensitivity are calculated in market terms. There are counterparty limits and specific limits with regard to credit risk, depending on the line of business, which are monitored and reported daily, monthly, and quarterly.

2. Banobras carries out investor activities in the purchase of paper related to some securitizations, in conformity with the operating framework approved by the CAIR, and with the considerations issued by the Finance and Asset and Liability Management Committee (COFIGAP).

3. Banobras acquired securities related to securitizations as part of its investment strategy in 2019.

4. The rating agencies used for assigning the weighting factor for the determination of the capital requirement for credit risk in securitization positions are: Standard & Poor's, Fitch Ratings, Moody's, HR Ratings de Mexico, Verum, A.M. Best Rating Services and DBRS.

5. Banobras follows the practice of employing hedging strategies through derivative financial instruments.

6. The Bank has neither carried out its own securitizations nor through trusts.

7. The Institution does not participate as a sponsor of securitizations.

8. The Bank carries out journal entries in accordance with the currently enacted standards.

b) Quantitative information:

1. Banobras does not have its own securitized products.

2. The aggregate amount of:

   i. The securitization positions acquired itemized by risk weighted bands.

Band	Type of value	Amount (Millions of Mexican pesos)	Weighting Factor By market risk (%)
11	95	3,011.3	13.92
12	90	1,800.0	13.42
12	91	499.0	13.42
12	95	1,690.4	13.42
10	D2	99.3	5.48
11	D2	347.4	7.38
12	D2	1,177.3	9.59
	Total	**8,624.7**	

3. EI aggregate amount of:

i) The capital requirements corresponding to securitized exposures itemized by risk of nonperformance:

Type of value	Amount (Millions of Mexican pesos) [a]	Weighting factor (%) [b]	Capital req. (Millions of Mexican pesos) [c] = [a] * [b]/100 * 8%
90	1,800.0	20	28.8
91	499.0	50	20.0
95	4,701.7	20	75.2
D2	1,624.0	100	129.9
Total	**8,624.7**		**253.9**

ii) No securitized exposure is reduced from fundamental capital.

4. There are no charges to capital with regard to securitizations subject to early redemption treatment.

5. Banobras does not have exposures in re-securitizations.

CREDIT MANAGEMENT POLICIES

Granting (credits):

- The Institution grants credits to the Federal Government, Mexico City, state and municipal governments, their respective agencies, state and or municipality-owned entities, as well as public entities that may contract financing in terms of the applicable legislation and standards, financial brokers, private equity companies, and trusts created, provided that such financing is channeled toward developing activities directly or indirectly related to infrastructure and public services, in conformity with Articles 3, 6, 7, and 31 of the Internal Regulations of the Institution.

Evaluation:

- All credit or financing applications, before being sent to the granting stage, are analyzed by the Business areas in order for those applications to have the elements for drawing up the Term Sheet, in accordance with the guidelines set forth in the Credit Manual.

- The elements that must be taken into account to perform the credit analysis include the following:

  - Credit operations must not exceed the indebtedness limits determined by the Risk area, in conformity with the methodology authorized by the Comprehensive Risk Management Committee (CAIR) or the metric that substitutes it.

  - The interpretation of the results obtained from the inquiry made with the Credit-Reporting Agency (Credit Bureau) on the credit history of the applicant and, if applicable, guarantees by endorsement, guarantors, sureties or joint and several obligors, secondary obligors, trustors, individual stockholders who hold 10% or more of the shares or that represent at least 75% of the capital stock of the company.

  - Under no circumstances must credits be segmented to be authorized by one or more of the levels of authority.

Based on the Credit Analysis and Term Sheet drawn up by the Business areas, as well as the opinions of the Risk area and Juridical area, the Credit Management perform a Comprehensive Credit Evaluation, which sets out whether or not the operation is viable and the degree of risk thereof. They further verify that prudential aspects are covered with regard to credit and that each and every one of the requirements are met, as set forth in the Credit Manual.

Authorization:

Credit applications are authorized by the levels of authorities and officers duly authorized, based on the Term Sheet and their exhibits, as well as the Comprehensive Credit Evaluation. It is important to note that no credit is authorized if it does not have the minimum information and documentation set out in the Credit Manual and applicable provisions, by taking into account, among other things, the following:

- Primary source of recovery of the credit or financing.
- The creditworthiness of the credit of financing applicant.
- The proposed guarantee scheme that allows for recovering the proceeds granted or any mechanism that mitigates the risk associated with the financing.
- Risk exposure on the total credit or financing operations payable by the possible debtor, as well as his payment experience.
- The possible existence of a common risk, in conformity with the provisions set forth in the policies and procedures for common risk management and diversification of credit risks and for the analysis and follow-up on the concentration and capital burden by concentration for the Banobras portfolio, set forth in the Comprehensive Risk Management Manual.
- The results of the sensitivity exercises on the projected flows of the applicant in dealing with variations in various risk factors, the credits or financing that they represent individually or under the common risk concept, the lower of an amount of more than ten percent of the basic capital of Banobras, or equal to or higher than thirty million UDIS in the equivalent in Mexican pesos, and whose term exceeds one year.
- In credits or financing whose source of payment and/or guarantee are comprised of proceeds assigned irrevocably in a trust, present the percentage of the source of revenues identified and/or the amount of proceeds to be placed in a trust, independently from the amount and/or percentage of proceeds allocated for the payment of prior commitments.
- The term established for the credits or financing with a proprietary source of payment must be congruent with the maturity of the respective project, concession title, service contract, decree or any other juridical instrument related to the project.
- The conclusions and opinion of the Comprehensive Credit Evaluation with regard to the viability of the operation, in accordance with the degree of risk thereof.

Control:

- Once credits are authorized by the by the levels of authorities and officers duly authorized, they are formalized by an agreement drawn up by the Juridical area.

  The Business area sends the legal instruments supporting authorized the operations duly signed to be sent to the vault and a copy thereof to the Credit Control and Regulatory Desk, which verifies that the credits to be granted were documented in the terms and condition that would have been approved for that purpose and, if applicable, it releases the proceeds applied for by the borrower, and the corresponding disbursements are subsequently authorized.

- Once the proceeds are released, the portfolio management area, with the approval of the disbursements, authorizes those disbursements in accordance with what was agreed upon contractually and records the credit and its disbursements in the Comprehensive Portfolio System, whereby the journal entry is made. Control of the portfolio is subsequently kept through monthly credit granted reports that are sent to the Business areas and the operation-accounting reconciliation.

Credit recovery:

- Statements of account are sent to borrowers within 10 days after they are issued for recovery of the credits.
- The recovery of the portfolio is recorded automatically every day, provided that it contains the correct alphanumerical reference of each credit. Otherwise, it is applied monthly upon identification of the deposits.
- Notification to the Business areas on delays in payments of the portfolio generated by their borrowers, by the follow-up system as well as by the area that manages the portfolio.
- Should delays continue in payment and the credit falls into nonperforming portfolio, arrangements are made to furnish the collateral as guarantees maintained by the credit, in conformity with the indications of the business areas.

Follow-up on the credit risk:

- Each one of the credits of the portfolio is followed up on permanently. All that relevant information is gathered that indicates the status of the credits and, if applicable, the guarantees and ensuring that they maintain the minimum proportion that would have been established. Guarantors are followed up on as if any other borrower were involved.
- The credits that will have foreseeable recoverable problems, as a result of the permanent follow-up or for having fallen into the nonperforming portfolio, are subject to a detailed evaluation to determine the possibility of establishing new terms and conditions that increase their probability of being recovered on a timely basis.

INTERNAL CONTROL SYSTEM

In the terms set forth in the General Provisions Applicable to Credit Institutions, the Board of Directors of Banobras, at the proposal of the Audit Committee and through Resolution No. 139/2019, approved the update of the Objectives of the Internal Control System of Banobras, the guidelines for their implementation and the duties and responsibilities assigned to the distinct areas and internal bodies that take part in their implementation, application, oversight, and supervision.

The objectives and guidelines referred to above have been announced to all Bank personnel, through an announcement issued by e-mail.

Moreover, Banobras has the following guiding internal control documents, approved by the corresponding bodies:

a) Code of Conduct of Banco Nacional de Obras y Servicios Públicos, S.N.C.;

b) Guidelines for Human Resources Management;

c) Policies Manual for the Appropriate Employment and Use of Human Resources;

d) Remunerations Manual, Retirements, Rights and Obligations applicable to the Management Employees of Banobras, S.N.C.;

e) Manuals for the organization and operation of the distinct business and support areas in which the objectives, guidelines, policies, responsibilities, procedures, and controls, among other aspects are described in detail in order to document, record, and settle operations, and to safeguard the information and the assets.

f) Money Laundering and Financing Terrorism Prevention Compliance Manual;

g) Methodology for Evaluating the Degree of Risk of the Entity;

Likewise, by following uniform criteria and in order to rationalize the issue of normative documents that regulate the daily operation of the Bank, continuity was given to workers in 2019, for the update of the documentation of the fundamental processes, in accordance with the purpose of the Bank and its corresponding controls, oriented toward:

- Segregation of duties;
- Clear assignment of responsibilities; and
- Safeguarding of Information and documentation.

The organizational structure of the Bank is supported by principles of Independence, segregation, and delegation of duties and responsibilities, which adapt to business and regulatory requirements.

The Bank has the Internal Controllership Management in charge of coordinating and supervising the operation of the Institutional Internal Control System, as well as develop and promote the design, establishment, and updating of measures and controls that give rise to compliance with internal and external rules, and the correct operation of the information processing systems.

Accordingly, Internal Control Agendas (ICA) continued to be implemented, among other self-evaluation tools, which are comprised of reagents that arise from the regulations and operating manuals of the processes, and they are evaluated periodically, which allows for promoting and strengthening a culture of self-control.

During fiscal 2019, continuity was given to the application of the ICAs for the processes of "Derivatives Products", "Fundraising and Investment of Financial Resources", "Money Laundering Prevention", "Trustee Support", "Trustee Management", "Risk Management", "Technical Assistance", "Credit", "Accounting", "Information Security", and "Fundraising and Investment of Financial Resources" (Treasury).

Moreover, actions prevailed that tend toward the updating of reagents for the strengthening of controls.

Banobras has established an Audit Committee in which members of the Board of Directors participate, of which at least one should be independent and preside over it. The Committee meets at least every quarter, and its operation is governed by a manual approved by the Board of Directors. This Committee assists the Board of Directors in supervising the financial statements and appropriate operation of Internal Control.

The Institution also has an independent Internal Audit area that reports to the Audit Committee. The head of the Audit Committee is appointed by the Board of Directors at the proposal of the Audit Committee.

The competencies and responsibilities concerned with Internal Controllership and the Internal Audit Area are evaluated by the Audit Committee.

In addition, and in order to establish actions for assuring the integrity and ethical behavior of public servants in the performance of their jobs, positions or commissions, an Ethics Committee was created which, among other things, has the following duties:

- Participate in issuing the Code of Conduct, as well as assist in applying and complying with that Code.

- Act as a consulting and advisory body specialized in matters related to their application and compliance.

34. Recently issued regulatory pronouncements

- **Changes in the Provisions of the CNBV**

On November 4, 2019, and amending Resolution was published in the Official Daily Gazette of the resolution that modifies the general provisions applicable to credit institutions, published on December 27, 2017, whereby the term is extended for incorporating certain financial reporting standards, issued by the Consejo Mexicano de Normas Financieras, A.C. (CINIF), to the standards applicable to preparing the accounting of credit institutions.

The Management of the Institution is analyzing the effect that these modifications will have on the financial information. The most relevant changes are discussed below:

Accounting Criterion A-2 "Application of particular standards"

Various MX FRS issued by the CINIF are incorporated in order for them to apply to credit institutions, at the time of determining the term for them to be applied, indicating their effectiveness at January 1, 2021. Those MX FRS are as follows: B-17 "Determination of fair value", C-3 “Accounts receivable", C-9 "Provisions, contingencies and commitments", C-16, “Impairment of financial instruments receivable", C-19 "Financial instruments payable", C-20 "Financial instruments for collecting principal and interest", D-1 "Revenues on contracts with customers", D-2 "Costs of contracts with customers", and D-5 "Leases".

It is important to note to note that MX FRS C-2 "Investment in financial instruments" and MX FRS C-10 "Derivative financial instruments and hedge ratios" will be applicable to Credit Institutions, once the specific criteria of B-2 are repealed. Investments in securities” and B-5 "Derivatives and hedge trading", issued by the CNBV, in effect to date.

- **New pronouncements issued by the CINIF**

The CINIF has issued the MX FRS and Improvements to MX FRS are discussed below:

MX FRS B-11 *"Disposition of long-lived assets and discontinued operations".* It goes into effect for fiscal years beginning January 1, 2020. The purpose of this standard is to separate the regulatory criteria contained in the current Bulletin C-15 Impairment in the value of long-lived assets and their disposition, by segregating them into two separate standards, one on the disposition of long-lived assets and discontinued operations, and another on the impairment of long-lived assets in a new MX FRS C15. The first-time application of this MX FRS does not give rise to accounting changes in the financial statements.

MX FRS B-17 *"Determination of fair value".* It goes into effect for fiscal years beginning January 1, 2021, for credit institutions. It sets forth the valuation standards and disclosure in the determination of fair value, in its initial and subsequent recognition, if fair value is required or permitted by other particular MX FRS. If applicable, changes in valuation or disclosure must be recognized prospectively.

MX FRS C-3 "Accounts Receivable". It goes into effect for fiscal years beginning January 1, 2020, for credit institutions, with retrospective effects, except for the effects of valuation that can be recognized prospectively, if it is impractical to determine the effect in each one of the prior fiscal years presented. Accounts receivable that are treated in this MX FRS are those that do not bear interest, either implicit or explicit and they are short-term.

MX FRS C-9 *"Provisions, Contingencies and Commitments".* It goes into effect for fiscal years beginning January 1, 2021, for credit institutions. It renders Bulletin C-9 "Liabilities, provisions, assets and contingent liabilities and commitments" null and void. The first-time application of this MX FRS does not give rise to accounting changes in the financial statements.

MX FRS C-16 *"Impairment of financial instruments receivable".* It goes into effect for fiscal years beginning January 1, 2021, for credit institutions with retrospective effects. It sets forth the standards for the book recognition of expected credit losses of all financial instruments receivable (IFC). It further sets important when and how an expected impairment loss must be recognized as well as the methodology for its determination.

MX FRS C-19 *"Financial instruments payable".* It goes into effect for fiscal years beginning January 1, 2021, for credit institutions, with retrospective effects. The purpose of this standard is to separate the regulatory criteria contained in Bulletin C-9, since the characteristics of financial liabilities and liabilities for provisions are distinct. The standard referring to financial liabilities is shifted to MX FRS C19 and, therefore, the part of provisions, contingencies, and commitments is shifted to the new MX FRS C9. "Provisions, contingencies and commitments"

MX FRS C-20 *"Financial instruments for collecting principal and interest".* It goes into effect for fiscal years beginning January 1, 2021, for credit institutions, with retrospective effects. Its main change is the classification of financial instruments in assets, by adopting the business model concept of the administration.

MX FRS D-1 *"Revenue from Contracts with Customers".* It sets forth the standards for the book recognition of revenues arising from contracts with customers, and it becomes effective for fiscal years that start, beginning January 1, 2021 for credit institutions with retrospective effects. It eliminates the suppletory application of the International Accounting Standard (IAS) 18 *"Revenues"*, IAS 31 *"Revenues- Advertising services swaps"*, IFRIC 13 *"Customer Loyalty Programs"*, and IFRIC 18 *"Transfers of assets from customers"*. In addition, this MX FRS, together with MX FRS D-2, repeals Bulletin D-7 *"Construction and manufacturing contracts of certain capital assets"* and IFRS *"Construction contracts, sale, and rendering of services related to real property"*.

MX FRS D-2 *"Costs incurred on contracts with customers".* It sets forth the standards for the book recognition of the cost of sales of goods or rendering of services. It goes into effect for fiscal years beginning January 1, 2021, for credit institutions, with retrospective effects. Together with MX FRS D-1 "Revenues from contracts with customers", it repeals Bulletin D-7 "Construction and manufacturing contracts of certain capital assets" and INIF 14 "Construction contracts, sale, and rendering of services related to real property", except in what concerns the recognition of assets and liabilities in this type of contracts in the scope of other MX FRS.

MX FRS D-5 *"Leases".* It goes into effect for fiscal years beginning January 1, 2021, for credit institutions, with retrospective effects. This new standard invalidates Bulletin D-5 "Leases" and the suppletory applicability of IFRIC 4 "Determination of whether an agreement has a lease".

Improvements to FRS 2020. They are issued by the CINIF as part of the updating process and they include punctual changes in MX FRS that can or cannot bring about changes.

The improvements to MX FRS that generate accounting changes are as follows:

MX FRS C-16 *"Impairment of financial instruments receivable".* It sets out the use of the original effective interest rate in the valuation of the ICFIPIs, with regard to renegotiations where the instrument was not retired.

MX FRS C-19 "Financial instruments payable". The requirement is eliminated of recalculating the effective interest rate periodically, in dealing with a variable interest rate, since its effects are not considered to be relevant.

MX FRS C-20 *"Financial instruments for collecting principal and interest".* The requirement is eliminated of recalculating the effective interest rate periodically, in dealing with a variable interest rate, since its effects are not considered to be relevant. It is consistent with the change in MX FRS C-19.

MX FRS D-3. "Employee benefits". A paragraph is incorporated to indicate the observance of MX FRS D-4 with regard to uncertain tax treatments, for considering that PTU could also be based on uncertain determinations when calculated with the same tax law.

MX FRS D-4 "Taxes on earnings". It incorporates the concept of uncertain tax treatment for considering the conclusions of the interpretation of CINIIF 23 in MX FRS. The uncertainty in dealing with Tax Treatments on Earnings issued by the Interpretations Committee to International Financial Reporting Standards.

MX FRS D-5 *"Leases".* The possibility is incorporated of using a risk free rate for discounting future lease payments and thus recognizing the lease liability of a lessee. The use of a practical solution is also limited for preventing significant components, which are not lease related, from being included in the measurement thereof.

Improvements to MX FRS that do not generate accounting changes are modifications relative to detailed definitions that help establish a clearer and more comprehensive regulatory statement of the issue, and they are:

MX FRS B-1 *"Changes in accounting changes and error corrections".* It introduces the concept of partial retrospective application to refer to cases in which it is impractical to determine the accumulated effects for all the prior periods affected.

MX FRS B-11 *"Disposition of long-lived assets and discontinued operations".* It clarifies that assets for disposition include assets held for sale, for distribution to stockholders, for abandonment, and for donation.

MX FRS C-2 "Investment in financial instruments". The wording is improved which sets out in the initial recognition that a financial instrument can be irrevocably designated as valued at fair value.